



# County of San Diego

## CAO Proposed Operational Plan Fiscal Years 2005-2006 & 2006-2007

### Board of Supervisors

First District	Greg Cox
Second District	Dianne Jacob
Third District	Pam Slater-Price
Fourth District	Ron Roberts
Fifth District	Bill Horn

Walter F. Ekard  
Chief Administrative Officer

Donald F. Steuer  
Chief Financial Officer

*"Supporting Kids, the Environment, and Safe & Livable Communities"*





GOVERNMENT FINANCE OFFICERS ASSOCIATION

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**July 1, 2004**

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The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to **San Diego County, California** for the Annual Budget beginning July 01, 2004. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



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## County of San Diego

### County of San Diego

Board of Supervisors

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CAO Proposed Operational Plan - Overview

All Funds: Total Appropriations

All Funds: Total Staffing

All Funds: Total Revenues

Summary of General Fund Financing Sources

General Purpose Revenues

Capital Projects

Projected Reserves and Resources

Long- and Short-Term Financial Obligations

Credit Rating and Long-Term Obligation Policy

Financial Planning Calendar

Summary Of Related Laws, Policies, and Procedures

County of San Diego Budget Documents



## Board of Supervisors

Pam Slater-Price  
District 3  
Chair



Bill Horn  
District 5  
Vice Chair



Greg Cox District 1



Dianne Jacob District 2



Ron Roberts District 4



## Message from the Chief Administrative Officer

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The Proposed County of San Diego Operational Plan for Fiscal Years 2005-2007 presented for consideration in this document builds on our organization's past accomplishments and existing strengths, while continuously striving to improve and meet the future needs of San Diego County residents.

In some ways, this proposed Operational Plan is similar to County budgets adopted in past years. For example, I'm proud to say that this proposed Operational Plan is, as it has been in past years, structurally-balanced. It maintains the key business disciplines of our General Management System and continues to deliver vital services to County residents.

In other ways, it is quite different from anything we have done in the past. This year, more than ever before, we will connect the services we provide with the public that uses them -- engaging our customers and stakeholders in a dialogue that will make our operations better - more efficient, better focused and better understood.

This year we're going to focus on what is happening in the lives of our citizens rather than what is happening to us. In this year's Operational Plan, you will see each department commit to measure their performance in terms of outcomes - how we affect people's lives - rather than the activities we perform.

Although we routinely look for process improvement areas, over the next 18 months, we are undertaking three major re-engineering initiatives focused on improving the speed and quality of service delivery -- redesigning the County's land use and business permit processes, implementing a mobile strategy for health care professionals who work in the field and streamlining our accounting functions. These initiatives represent an enterprise-wide commitment to transparency, accountability and an honest effort to remain focused on our customers' needs. As we navigate challenging times, we will continue to identify ways to provide more services with fewer dollars at a faster speed with a higher level of quality.

It is still important to note that County government is and always will be impacted by the dictates, successes and failures of the Federal and State governments. With the State's fiscal crisis still unresolved, we must be prepared for future cuts and aggressively protect our revenues. But, while we cannot and will not ignore the State's impact on us, we also cannot afford to let it define us - or to let it define our services, our expectations or our relationship with our residents.



## Message from the Chief Administrative Officer

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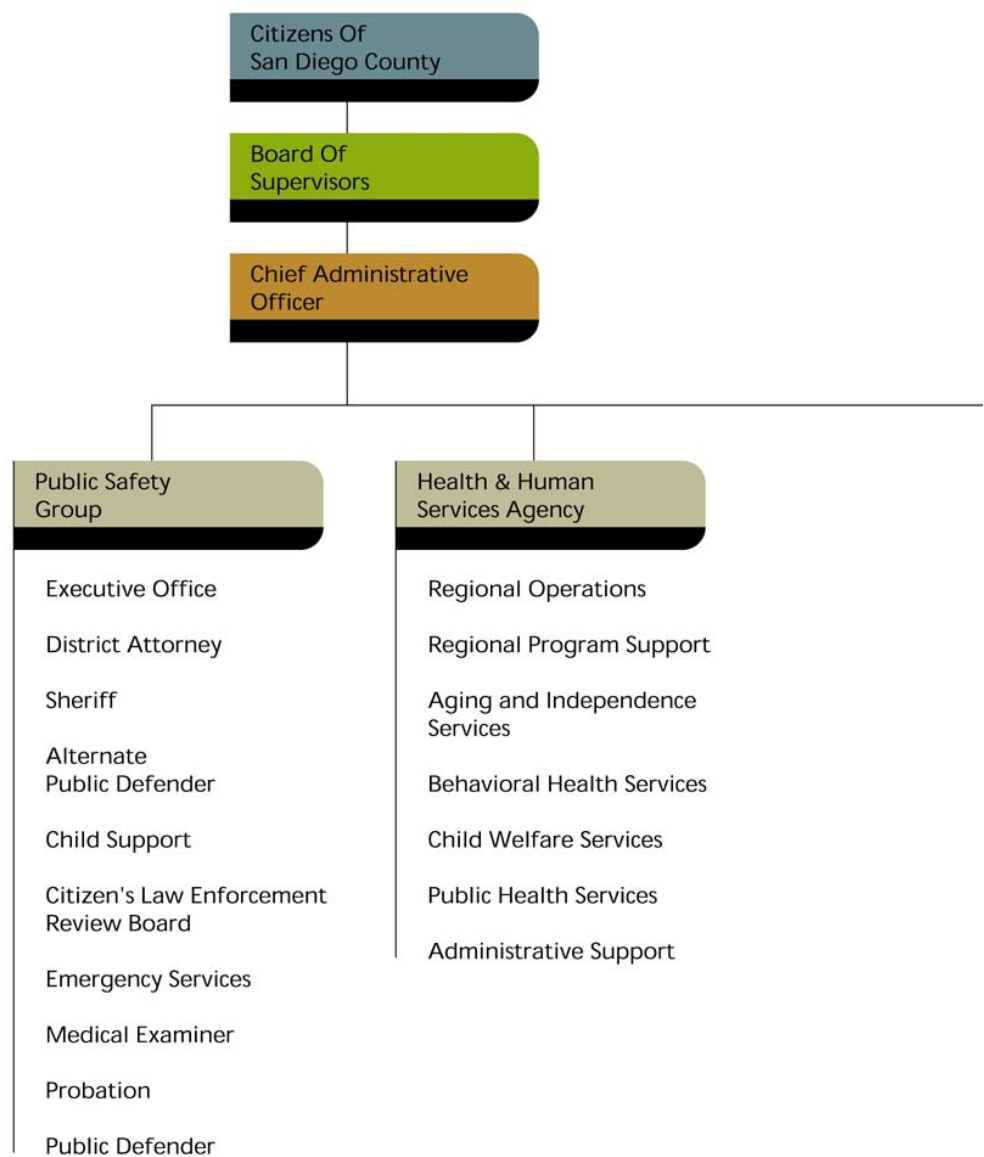
This Proposed Operational Plan reflects our commitment to maintaining a solvent, responsive and efficient County government that provides superior services to the residents of San Diego County. We will improve opportunities for kids. We will preserve and protect the environment. We will promote safe and livable communities. And we will do all these things in partnership with the communities we are here to serve.

A handwritten signature in black ink that reads "Walter Ekard".

Walter F. Ekard, Chief Administrative Officer

# Organizational Chart

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## Organizational Chart



# San Diego County Profile

## County History & Geography

San Diego County became the first of California's original 27 counties on February 18, 1850, shortly after California became the 31st State in the Union, and San Diego County functions under a Charter adopted in 1933, including subsequent amendments. At the time of its creation, San Diego County comprised much of the southern section of California. The original County boundaries included San Diego, along with portions of what are now Imperial, Riverside, San Bernardino, and Inyo counties.

The original territory of nearly 40,000 square miles was gradually reduced until 1907, when the present boundaries were established. Today, San Diego County covers 4,255 square miles, extending 70 miles along the Pacific Coast from Mexico to Orange County and inland 75 miles to Imperial County along the international border shared with Mexico. Riverside and Orange counties form the northern border.

Juan Rodriguez Cabrillo discovered the region that eventually became San Diego on September 20, 1542. Although he named the area San Miguel, it was renamed 60 years later by Spaniard Don Sebastian Vizcaino. He chose the name San Diego in honor of his flagship and his favorite saint, San Diego de Alcalá.

San Diego County enjoys a wide variety of climate and terrain, from coastal plains and fertile inland valleys to mountain ranges and the Anza-Borrego Desert in the east. The Cleveland National Forest occupies much of the interior portion of the County. The climate is equable in the coastal and valley regions where most resources and population are located. The average annual rainfall is only 10 inches, so the County is highly reliant on imported water.

## County Population

San Diego County is the southernmost major metropolitan area in the State of California. The preliminary estimate by the State of California Department of Finance of the

County's population as of January 2005 is 3,060,000, an increase of approximately 1.4% over January 2004, making it the third largest county by population in California. Because the official estimates for January 2005 will not be available until after the publication of this document, the January 2004 data is shown in the table below.

City	January 1, 2004
Carlsbad	93,000
Chula Vista	209,340
Coronado	26,450
Del Mar	4,560
El Cajon	97,600
Encinitas	62,600
Escondido	140,500
Imperial Beach	27,800
La Mesa	56,000
Lemon Grove	25,600
National City	57,000
Oceanside	173,300
Poway	50,600
San Diego	1,294,000
San Marcos	67,400
Santee	54,000
Solana Beach	13,450
Vista	94,000
Unincorporated	470,000
Total	3,017,200

The regional population forecast for 2030 is estimated at 3.9 million according to the San Diego Association of Governments (SANDAG). San Diego County's racial and ethnic composition is as diverse as its geography. According to a projection by the State Dept. of Finance (May 2004)



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San Diego's population breakdown in 2010 will be 46% White; 34% Hispanic; 12% Asian; 7% Black; and 1% all other groups.

### **Governmental Structure**

A five-member Board of Supervisors elected to four-year terms in district, nonpartisan elections governs the County. There are 18 incorporated cities in the County and a large number of unincorporated communities. The County provides a full range of public services, including public

assistance, police protection, detention and correction, health and sanitation, recreation, and others. These services are provided by five Agency/Groups, that are headed by General Managers [Deputy Chief Administrative Officers (DCAOs)], who report to the Chief Administrative Officer (CAO). Within the Groups, there are four departments that are headed by elected officials - District Attorney and Sheriff (Public Safety Group) and the Assessor/Recorder/County Clerk and Treasurer-Tax Collector (Finance and General Government Group).

Sources: SANDAG - San Diego's Regional Planning Agency and the California Department of Finance

# Excellence in Governing

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## Mission:

To provide the residents of San Diego County with superior County services in terms of quality, timeliness and value in order to improve the region's Quality of Life.

## Vision:

A County Government that has earned the respect and support of its residents.

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## Recognitions of Excellence

Throughout the previous fiscal year (Fiscal Year 2004-2005), a wide variety of County of San Diego programs were recognized for excellence by community and professional organizations. The awards listed below illustrate how the County has used its commitment to excellent customer service, continuous improvement, community partnerships and use of technology to create programs that have been recognized statewide and nationally for innovation and excellence. More than anything, we strive to offer programs that improve the lives of San Diego County residents in ways that are relevant and measurable. We are proud that our leadership in these areas has been recognized by the following groups:

- In 2004, 29 County of San Diego programs were selected for Achievement Awards by the National Association of Counties (NACo). Of the 106 U.S. counties receiving recognition, San Diego County received the second highest number of awards given to any county.
- The County of San Diego was one of only ten California counties to receive a prestigious Challenge Award from the California State Association of Counties (CSAC) in 2004, winning for its Risk Mitigation and Litigation Program.
- The County of San Diego ranked #1 on a list of the nation's most digital-savvy counties, according to the 2004 Digital Counties Survey, which examined how county governments use information technology to deliver services to citizens. The nationwide survey was conducted jointly by the Center for Digital Government, the National Association of Counties (NACo), and Government Technology magazine.
- County Television Network (CTN), the local government access channel for the County of San Diego, was awarded four Emmy awards by the National Association of Television Arts and Sciences/Pacific

Southwest Chapter, for programming excellence and also received first place for Overall Excellence in 2004 by the States of California and Nevada Chapter / National Association of Telecommunications Officers and Advisors (SCAN NATOA).

- The San Diego County Taxpayers' Association (SDCTA) awarded their 2004 Regional Golden Watchdog Award to the San Diego County District Attorney for the District Attorney's Elder Abuse Program, with the County's "Public Purchasing: Changing Times, Changing Ways" program named a finalist in the same category.

Other recognitions of excellence received by San Diego County that highlight the County's progress in meeting its strategic goals include:

## Strategic Initiative - Improving Opportunities for Kids

- **Congress of History - 2005 Award of Merit** to Los Penasquitos County Park for the "La Vida del Rancho" School Program that teaches fourth grade students about early nineteenth century San Diego ranch life.
- **National Association of Counties (NACo) - 2004 Achievement Awards**
  - Emancipated Foster Youth Transitional Housing Program - rental assistance to former foster youth between the ages of 18-21.
  - The Virtual Teen Experience - County Library program designed to focus attention on customer service to adolescents.
  - East Region Way Station - emergency foster homes while regional placement is obtained.
- **National Association of Counties (NACo) 2005 Acts of Caring Award** - San Diego County's Health and Human Services Agency for its "Volunteering to Fill Health Care Gaps" program: a collaboration with public and private



dental health providers to meet the dental health needs of children in low-income families. Only three Acts of Caring Awards were given nationwide.

- **The Performance Institute - 2004 Innovations in Public-Private Partnerships** - California Work Opportunity and Responsibility to Kids (CalWORKS) and the Child Assessment Network North (CANN).
- **Child Support Directors Association of California (CSDA)** honored Child Support Services as the *2004 Top Agency* in the State of California in three of five federal standard performance categories.
- **National Association of Telecommunications Officers and Advisors (NATOA) - 2004 Government Programming Award Winners** to County Television Network (CTN) in the *Children/Young Adults* category: Bullying.

### **Strategic Initiative - Protect the Environment**

- The San Diego Regional Energy Office and the San Diego Chamber of Commerce recognized the County of San Diego with their "*San Diego Excellence in Energy*" Award, known as the *SANDEE*, for incorporating solar power and other improvements into building projects, saving energy and taxpayer dollars.
- **NACo - 2004 Achievement Awards**
  - Assistance to Maricopa County: Providing Analysis of Ambient Hydrocarbon Samples.
  - Air Pollution Control District (APCD) Title V Federal Operating Permit Program.
  - Strategic Acquisition Planning Geographic Information System (GIS) Mapping Model.
- **NATOA - 2004 Government Programming Award Winners** to CTN for *Innovative Program*: Down to Earth.
- **California State Association of Counties (CSAC) - 2004 Merit Awards**

- Lawnmower Emissions Reduction Program.

- **Strategic Acquisition Planning Geographic Information System (GIS) Mapping Model** - a state-of-the-art GIS modeling system to identify grants to protect environmental resources, and expand parks and recreation programs.
  - **NACo - 2004 Achievement Award.**
- **U.S. Environmental Protection Agency and Department of Transportation - Best Workplaces for Commuters** award in recognition of incentive programs for employees to carpool and take public transportation.
- **The National Television Academy - Pacific Southwest Chapter - 2004 Emmy Winners** to CTN for the *Informational/Educational Program* category: Down to Earth.
- **California Directors of Environmental Health (CCDEH) - 2004 Excellence in Environmental Health Award** for First Responder Hazardous Materials Business Plan Program.

### **Strategic Initiative - Promoting Safe & Livable Communities**

- **California Healthcare Association - Best Practices Award** to Edgemoor Geriatric Hospital for its free clothing "store" for disabled patients.
- **Homeless Court** - a ground breaking program that helps the homeless resolve outstanding legal issues:
  - **Ash Institute for Democratic Governance and Innovation, Harvard University's Kennedy School of Government - 2004 Annual Innovations in Government Award finalist.**
  - **States of California & Nevada Chapter / National Association of Telecommunications Officers and Advisors (NATOA) - First Place 2004 "Star" Award - Special Audience** and **NATOA - 2004 Government Programming Award Honorable Mention: Homeless Court.**



- **NACo - 2004 Achievement Awards**
  - "Fight the Bite" - a West Nile Virus Strategic Response Plan.
  - Consumer Awareness Program for Scanner Price Accuracy.
  - Farmworker Health Initiative.
  - Fallbrook Revitalization.
  - Lincoln Acres Community Cleanup Project.
  - Rental Assistance Fraud Detection Partnership.
  - San Diego e-Bus - Bridging the Digital Divide.
  - Amazon Wish List for Library.
  - Earn It, Keep It, Save It! Program.
  - Health Advisory Committee on Terrorism.
  - Emergency Medical Alert Network.
  - Mentally Ill Offender Program.
  - Organized Automobile Fraud Activity Interdiction Program.
  - Identity Theft Program.
  - Constituency Outreach - Treasurer/Tax Collector.
  - Bringing the Court to the Street - CTN.
- **"You Can Work" Program** - an employment initiative, which assists the disabled in San Diego County to work without placing their benefits at risk.
  - **2004 Award of Excellence** by the **National Organization on Disability and the National Association of Counties (NACo)**.
  - **CSAC - 2004 Merit Award**.
- **2004 U.S. Housing & Urban Development (HUD) HOME Doorknocker Award** - Housing & Community Development Department for its Emancipated Youth Rental Assistance Program. This award was one of only 20 given nationwide and one of only two given in California.
- **NATOA - 2004 Government Programming Award** **Winners** to CTN for:
  - **Public Education:** Touch Screen Voting - How It Works.
  - **Public Safety:** Jail Kitchen.

- **Ethnic Experience:** "World Beat Center" and "CTN Celebrates the Holidays: Ramadan".
- **Public Service Announcement:** Having a Big Bug Problem?
- **SCAN NATOA Chapter - First Place 2004 "Star" Award** to CTN for:
  - **Magazine Format:** County Chronicles
  - **Public Safety Programming:** Detention Deputies.
- **American Planning Association, San Diego Chapter - Honorable Mention- Outstanding Planning Projects**
  - Fallbrook Revitalization.
  - San Diego County Waterfront Park Master Plan.

**Other recognition for programs that promote the Safe and Livable Communities Initiative**

- **Firestorm 2003** - San Diego County recently suffered the worst wildfires in California history. These fires burned nearly 400,000 acres, destroyed 5,000 structures, and resulted in loss of life. The County's initial response was to save life, limb, and property. Restoration of vital infrastructure, assistance to affected citizens, and reduction of flood and erosion risks has been the continued response.
- **NACo - 2004 Achievement Awards**
  - Department of Parks and Recreation Strike Team.
  - Erosion Control Actions - Firestorm 2003.
  - Local Assistance Center - Firestorm 2003.
- **American Public Works Association (APWA)**
  - **Environmental Project of the Year/\$2-10M** - Post-Fire Erosion Control.
  - **Environmental Project of the Year/\$2-10M (Honorable Mention)** - Debris Removal to Prevent Contamination of Drinking Water.
- **The National Television Academy - Pacific Southwest Chapter - 2004 Emmy Winners to CTN** for:
  - **Entertainment Program:** Sam the Cooking Guy - "Rice" and "All British".





- *Writing/Other than News:* Jail Chaplain.
- SCAN NATOA Chapter - *2004 "Star" Award* to CTN for:
  - *Documentary - Profile:* Veterans Remember - Combat, Day One.
  - *Documentary - Social:* CTN Celebrates the Holidays: Ramadan.
  - *Public Safety Programming:* Jail Kitchen.
  - *Promo:* Touch Screen Voting - How It Works.
  - *Sports:* A Night at the El Cajon Speedway.
  - *Performing Arts:* KPRI Private Concert Thorns/Jayhawks.
  - *Public Service Announcement:* Having a Big Bug Problem?
- Health and Human Services Agency Revenue Project.
- **CSAC - 2004 Merit Awards**
  - Executive Management Performance System.
  - Public Purchasing: Changing Times, Changing Ways.
- **National Association of Government Defined Contribution Administrators (NAGDCA) 2004 Leadership Recognition Award** to the Treasurer/Tax Collector and the San Diego County Employee Retirement Association (SDCERA) for the SDCERA Financial & Investment Educational Symposium Series designed for current and retired County employees.
- **Government Finance Officers Association of the United States and Canada - Distinguished Budget Presentation Award** for the 2004-05 & 2005-2006 Operational Plan.
- **National Purchasing Institute, Inc. - 2004 Achievement of Excellence in Purchasing Award** to Purchasing and Contracting - Business processes and technology enhancements.
- The San Diego County Juvenile Hall Facility was re-accredited in June 2004 for two years at the highest level, by the **California Medical Association (CMA)** - one of only seven counties statewide to achieve this level of accreditation.

### Operational Excellence Awards

- **California State Association of Counties (CSAC) - 2004 Challenge Awards**
  - Risk Mitigation & Litigation Program.
- **NACo - 2004 Achievement Award**
  - Customer Service Training - Housing and Community Development.
  - Library Staff Training Academy.
  - Library DVD/CD Care and Repair.
  - Contracts Training Academy.

# CAO Proposed Operational Plan - Overview

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## Introduction

The County's Fiscal Year 2005-07 Proposed Operational Plan is prepared with the recognition that there are always new challenges and opportunities. This plan flows from a continuous review of expectations, needs, and resources that define the County's operating environment. Environmental considerations that influence the Proposed Operational Plan include ongoing structural State budget deficits, a mounting federal deficit, ongoing federal and State mandates, cost escalation in housing, energy, healthcare, and regional cost of living, homeland security issues, and ongoing military mobilization and engagements.

## Economic Indicators

The U.S. economy's Gross Domestic Product (GDP) for 2004 showed an increase of 4.4% versus 3% growth in 2003. This represents the strongest year for growth in the U.S. economy since 1999. This growth was primarily driven by domestic consumption and the housing sector. For the first half of 2005, a slower but still healthy growth of about 3.3% will be led by business investment and exports. Some significant risks facing the U.S. economy include the large and growing current trade deficit, inflation, uncertainty in oil prices, and weaker-than-expected growth in Europe and Japan.

After a closer look at actual data for California's economy, the State has been doing well for the last two years. The Bay Area is the exception given the high tech bust of 2000. Overall, 2004 was a good year for California: payroll and household jobs experienced healthy growth of 1.5%; the job growth also contributed to a solid personal income growth of 5.7%; and taxable sales grew by 5.4%. The unemployment rate has been inching down to 6.1% in 2004 versus 6.7% in 2003 and 2002. For 2005, similar but slower growth rates are estimated - taxable sales will show

moderate gains (4.8%), job growth is projected to remain stable (1.9%), and personal income is anticipated to grow at a healthy rate (4.9%).

For the last four years, the center of growth in the State has been and continues to be the southern portion of the state, i.e., San Diego County, Orange County, and the Inland Empire. San Diego County has experienced positive economic growth every year since 1994. Although economic momentum has slowed in recent years, a moderate pace is still projected for 2005 and 2006. The regional economy has outperformed both the State and national growth rates. Based on preliminary forecast data, San Diego will experience yet another year of positive economic growth in 2005 of approximately 4.0% adjusted for inflation.

Nearly one-half of San Diego County's population is part of the civilian labor force (1,507,900 in March 2005). The region is also home to perhaps the largest military complex in the world. The County has experienced positive job growth, prompting migration to San Diego by prospective employees in search of work. The annual unemployment rate was estimated at 4.6% for the 12 month period of April 2004 through March 2005, with March 2005's unemployment rate at 4.3%. These figures remain lower than the State projected rate for 2005 - 6.0% and the national forecast of 5.4%.

San Diego's housing affordability, a measure indicating the average household's ability to afford a median-price home, remains at 11% as of February 2005, the same level as in May 2004. Previously, San Diego's housing affordability had been 15% in December 2003, 22% in 2002 and 27% in 2001. San Diego's average annual individual wage level was \$37,169 in 2002, \$39,029, in 2003, and \$39,149 in 2004.

San Diego County, since the early 1990's, has worked hard and succeeded in building a more diversified economy. San

**Sources: SANDAG - San Diego's Regional Planning Agency, the San Diego Regional Chamber of Commerce, the UCLA Anderson Forecast, and the California Department of Finance**



Diego evolved as a hub for research and development (R&D) and product manufacturing in telecommunications, biotechnology, military products, electronics and information technology. A broad base of high technology companies has benefited the local economy. The defense sector is expected to continue to grow in 2005 due to the ongoing battle on terrorism and military activities. San Diego industry benefits from increased spending for homeland defense as well. One risk the County is monitoring closely is the 2005 Base Realignment and Closure Recommendations. International trade and implementation of the North American Free Trade Agreement (NAFTA) continue to be a major economic strength for the County, as well as the vibrant visitor/tourist industry. The San Diego Convention and Visitors Bureau (CONVIS) forecasts that 2005 will be a very strong year, and also notes that San Diego is emerging as a leading U.S. west coast cruise port. In 2005 the Port of San Diego will host more than 200 cruise ship visits, with 150 of those voyages beginning and ending in San Diego.

### State of California's Budget

The State of California's budget outlook continues to be severely strained by an ongoing structural imbalance between revenues and expenditures. On January 10, 2005, Governor Schwarzenegger submitted the Proposed Fiscal Year 2005-06 budget to the California legislature. The Governor's Proposed Budget addresses the Fiscal Year 2005-06 budget shortfall through program savings in K-12 education, social services, transportation, and employee compensation. The plan also uses about \$1.7 billion of the remaining Proposition 57 deficit-bond proceeds, and it contains other funding shifts and borrowing.

According to a review of the Governor's budget by the State of California's Legislative Analyst, it does not fully address the State's ongoing structural imbalance. The projected Fiscal Year 2006-07 imbalance is estimated to be \$5.0 billion. Moreover, the reform proposals in the budget would

also dramatically reduce the ability of future policy makers to establish budget priorities when addressing future budget shortfalls.

### Impact on the County's Proposed Operational Plan

From the County's perspective, the Governor's Fiscal Year 2005-06 Proposed Budget (the Governor's Proposed Budget) is consistent with the two year budget agreement reached between the State and local governments in July 2004 and the passage of Proposition 1A on the November 2004 ballot. There are no further reductions of County property tax or other General Purpose Revenues included in the Governor's Proposed Budget beyond the loss of \$27.5 million in property tax agreed to for both fiscal years 2004-05 and 2005-06.

The Governor's 2005-06 Proposed Budget would, however, change funding levels for certain State categorical programs. The greatest incidence of funding level changes appears to be on the recipients of various health and human services where benefits are proposed to be reduced or capped. The Health and Human Services Agency's (HHSA) budget would be minimally impacted from the reducing/capping of benefits and not impacted by reductions in allocations to counties for administrative costs. Most allocations were held flat and some reductions were made to California Work Opportunities And Responsibilities to Kids (CalWORKs) Administration. We are, however, spending well within our allocation in the current year and believe that these adjustments will have no impact on programs. The Governor has proposed numerous other programmatic changes in the health and human services area to reduce costs or create efficiencies, but the information available is insufficient to determine the direct impacts, if any, on the County. Once the State has an adopted budget and allocations from the State are known, the Board of Supervisors will be apprised and asked to make budget



adjustments if necessary. One area of the Agency's budget that reflects a funding growth is In-Home Supportive Services due to caseload and individual provider increases.

In the area of Public Safety, the most significant items include the restoration of Temporary Assistance to Needy Families (TANF) funding used to support juvenile probation services (\$11.4 million annually for the County of San Diego) and a 75% reduction in funding for Juvenile Crime Prevention. In the latter case, a statewide reduction of \$75.0 million from the previous funding level of \$100.0 million would result in an estimated loss of \$6.2 million for the County. This loss won't be felt until Fiscal Year 2006-07, however, because State funding for Juvenile Crime Prevention activities is established one year in advance. If the Juvenile Justice Crime Prevention Act (JJCPA) funds are reduced as proposed in the Governor's Fiscal Year 2005-06 Budget, the Juvenile Justice Coordinating Council will review all JJCPA funded programs in Fiscal Year 2005-06 and make recommendations for allocating the remaining funds in Fiscal Year 2006-07.

Another change in Public Safety is the increase in Contribution for Trial Courts in other charges (\$7.7 million) to align to actual levels of spending requisite for the revenue sharing requirements of the Memorandum of Understanding with the State Courts and to reimburse the Superior Court for the costs of providing Enhanced Collection Services.

In recent budget years, the State has been deferring repayment for State mandated costs to local governments. As a result, the County is owed several million dollars. In the Fiscal Year 2005-06 Proposed Budget, the Governor proposed repayment over a 15-year period of certain outstanding obligations of the State, including the currently outstanding \$3.6 billion in "maintenance factor" and \$1.3 billion in potential "settle-up" payments to schools, the unfunded mandates to local governments and schools, loans to the State's General Fund from special funds supporting transportation, and other loans from special funds. Further,

in accordance with provisions of Proposition 1A, the Governor's budget would suspend certain State mandates (those State directed activities that qualify for reimbursement under the SB90 guidelines) for Fiscal Year 2005-06 rather than fund them.

The most significant of these mandates is the provision of mental health care to students at the request of local schools. The State is supposed to pay 50% of the costs with the other 50% paid for by the federal government. The State has been deferring payment of its share of the costs (approximately \$4.0 million annually). The suspension of this mandate is not applicable to the County, however, because the County successfully sued the State and received a judgment from the Sacramento Superior Court in July 2004, that it did not have to provide the service unless the County was reimbursed for its costs. Subsequently, the local schools agreed to reimburse the County in order to continue to receive the service.

There are two other significant mandates that the Governor proposes to suspend for Fiscal Year 2005-06: Absentee Voting services in the Registrar of Voters, and Child Abduction and Recovery in the District Attorney's Office. The provision of these services is included, however, in the County's CAO Proposed Operational Plan. Expenditures are projected to be \$1.6 million for Absentee Voting and \$0.95 million for Child Abduction and Recovery. Should the suspensions be approved by the legislature, expenses incurred for these services would likely not be eligible for reimbursement under the SB90 claiming process.

### Understanding the Operational Plan

This Operational Plan provides the County's financial plan for the next two fiscal years (July 1, 2005 through June 30, 2007). Pursuant to Government Code §29000 et al., however, State law allows the Board of Supervisors to formally adopt only the first year of the Operational Plan as the County's Budget. The Board approves the second year of the plan in principle for planning purposes.



The Operational Plan details each department's major accomplishments during the past year, discusses strategic objectives for the next two years, and projects the resources required to achieve them. Operational planning in the County's General Management System (GMS) builds from the Strategic Plan and the Five-Year Financial Forecast. The first two fiscal years of the financial forecast form the basis for the Operational Plan. The Operational Plan is monitored regularly and is linked to the rewards and recognition phase of the GMS.

### The General Management System

The County's General Management System is the instruction manual for managing County operations and is the guide for adherence to key disciplines and core principles. The GMS describes how we plan, implement, and monitor all County functions that affect the services we provide to County residents, businesses, and visitors. Simply put, the GMS is a way of making sure that we uphold our obligations to our fellow citizens by sticking to our promises and plans, objectively evaluating performance, striving for continuous improvement, and efficiently applying precious taxpayer dollars.

The idea behind the GMS is straightforward: the County is able to provide superior services if we set sound goals and apply sound management principles to achieve those goals. At the heart of the GMS are five overlapping components that help make sure the County asks and answers crucial questions:

**Strategic Planning** asks: *Where are we going?* Strategic Planning is long-range (five-year) planning that anticipates significant needs, challenges, and risks on the horizon. A key product of the Strategic Planning process is the County's Strategic Plan, which defines major goals and action plans.

**Operational Planning** asks: *How do we plan to get where we're going?* Operational Planning focuses on short-term planning for the two upcoming fiscal years, allocating resources to specific programs and services in order to implement the Strategic Plan.

**Monitoring and Control** asks: *Are we on track?* Monitoring and Control is the process of continuously evaluating performance to ensure that goals are tracked, plans followed, and risks identified. This allows the County to know right away if we are over-spending or under-performing. Evaluations occur on a monthly, quarterly, and annual basis at all levels of the organization.

**Functional Threading** asks: *Are we working together?* The County has many critical functions and goals that cut across organizational lines. Functional threading ensures communication and cooperation across these lines to achieve objectives, solve problems, and share information. Coordinating staff and linking the functions they perform allows the County to efficiently use scarce resources.

**Motivation, Rewards, and Recognition** asks: *Are we sharing goals and encouraging success?* County employees personalize GMS disciplines. This requires setting clear expectations for employees, providing incentives, evaluating employees' performance, and rewarding those who meet and exceed expectations.

The five GMS components form an annual cycle that is renewed each fiscal year with review of the Strategic Plan and development of a new Operational Plan.

### Strategic Plan

The General Management System provides the County with a set of operating rules and guidelines. The Strategic Plan identifies key goals and disciplines, outlining the County's priorities for accomplishing our mission over a five-year period. Our Strategic Plan tells us where we should be going and our General Management System helps make sure we get there.

The County's 2005-10 Strategic Plan defines broad, organization-wide goals - known as Strategic Initiatives - which help prioritize specific County efforts and programs and form the basis for allocating resources. Everything the County does supports these three Strategic Initiatives:

- Kids (Improve opportunities for children),



- Environment (Promote natural resource management strategies that ensure environmental preservation, quality of life, and economic development), and
- Safe and Livable Communities (Promote safe and livable communities).

The Strategic Plan also sets forth key organizational disciplines because we must maintain a high level of operational excellence in order to accomplish our Strategic Initiative goals. Our Required Disciplines serve as enablers to the Strategic Initiatives. These Required Disciplines are: Fiscal Stability; Customer Satisfaction; Regional Leadership; Skilled, Competent Workforce; Essential Infrastructure; Information Management; Accountability/ Transparency; and Continuous Improvement.

To connect our Strategic Plan goals with the resources necessary to achieve them, a Five-Year Financial Forecast evaluates our available resources. To further align our goal setting process with resource allocation, the Strategic Plan is reflected in the program objectives in the Operational Plan, in the performance plans for managers, and in each department's Quality First Program goals.

### Context for Strategic and Operational Planning

To be effective, the goals we set and resources we allocate have to be consistent with our purpose as an organization. Context for all strategic and operational planning is provided by the County's Mission, Guiding Principles, and Vision. The Strategic Plan sets the course for accomplishing the County's mission:

**To provide the residents of San Diego County with superior County services in terms of quality, timeliness and value in order to improve the region's quality of life.**

This mission reflects our commitment to anticipating, understanding, and responding to the critical issues that affect our residents. The Strategic Plan also upholds the County's Guiding Principles, core values that articulate our organization's ethical obligations to County residents and basic standards to which County employees must adhere. These four Guiding Principles are:

- Provide for the safety and well-being of those San Diego communities, families, individuals, and other organizations we serve.
- Preserve and enhance the environment in San Diego County.
- Ensure the County's fiscal stability through periods of economic fluctuations and changing priorities and service demands.
- Promote a culture that values our employees, partners and customers and institutionalizes continuous improvement and innovation.

Achieving our Strategic Initiatives and maintaining operational excellence allows the County to realize its Vision:

**A County Government that has earned the respect and support of its residents.**

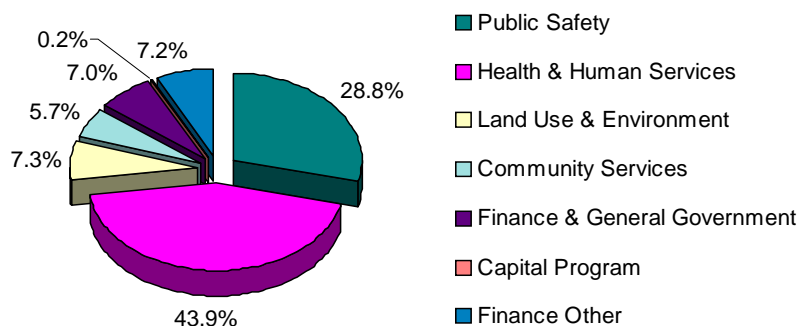


## All Funds: Total Appropriations

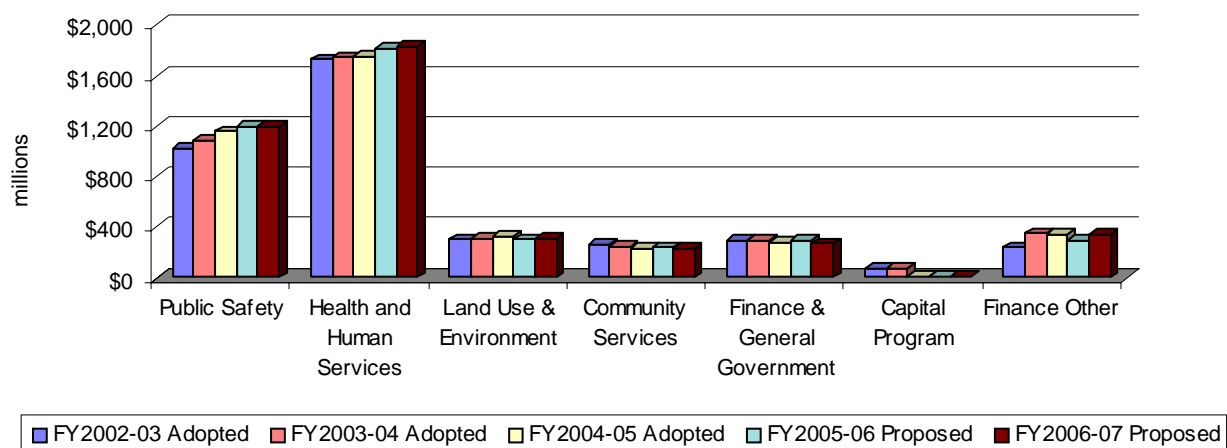
### Total Appropriations by Agency/Group

Appropriations total \$4.15 billion in the Proposed Operational Plan for Fiscal Year 2005-06 and \$4.19 billion for Fiscal Year 2006-07. This is an increase of \$59.6 million or 1.5% for Fiscal Year 2005-06 from the Fiscal Year 2004-05 Adopted Operational Plan. Looking at the Operational Plan by Agency/Group, appropriations increase in the Public Safety, Community Services, and Finance & General Government Groups, and in the Health and Human Services Agency (HHS), with the Land Use and Environment Group and Finance-Other program categories decreasing appropriations. The Health and Human Services Agency, at \$1.82 billion, continues to be the largest share of the budget, 44%, followed by the Public Safety Group at \$1.19 billion or 29%.

**Total Appropriations by Agency/Group  
Fiscal Year 2005-06**



**Fiscal Years 2002-03 Through 2006-07**





## All Funds: Total Appropriations

### Total Appropriations by Agency/ Group (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Proposed Budget	Fiscal Year 2006-07 Proposed Budget
Public Safety	\$ 1,021.7	\$ 1,082.7	\$ 1,158.6	\$ 1,192.6	\$ 1,192.5
Health and Human Services	1,730.0	1,744.1	1,751.0	1,820.6	1,836.3
Land Use & Environment	303.1	305.6	324.8	301.9	313.0
Community Services	265.7	251.7	231.2	237.0	236.2
Finance & General Government	296.0	289.1	276.5	289.1	272.2
Capital Program	68.5	67.8	8.2	6.6	5.7
Finance Other	239.3	349.1	338.0	300.1	336.1
<b>Total</b>	<b>\$ 3,924.3</b>	<b>\$ 4,090.2</b>	<b>\$ 4,088.2</b>	<b>\$ 4,147.8</b>	<b>\$ 4,191.9</b>

The pie chart above shows each functional area's share of the Fiscal Year 2005-06 Operational Plan, while the bar chart and table compare the Fiscal Years 2005-06 and 2006-07 appropriations to the three prior fiscal years.

The Proposed Operational Plan for Fiscal Year 2005-06 and 2006-07 demonstrates the Countywide focus on the following key areas:

- Measuring performance in terms of outcomes by identifying core services or mission critical services, desired performance results, and final outcome measures,
- Engaging our stakeholders and customers in our operations,
- Expanding our partnerships with our communities,
- Continuing our business process reengineering, and
- Maintaining superior customer services.

The transition to new outcome-based performance measures will be evident in the performance measure tables for each department. Where new measures are taking the place of old, an "N/A" will appear in the 2004-05 Adopted and 2004-05 Estimated Actual columns to signify that no

data is available for the current year. Where old measures are being discontinued, the "N/A" will appear in the 2005-06 Proposed and 2006-07 Proposed columns.

An overview of the County's Operational Plan is presented below by Agency/Group that highlights changes and key areas of emphasis. More detail by departments begins on page 67. In addition, Appendix A includes budget summaries by object level by Agency/Group.

**Public Safety Group** — A net increase of 2.9% or \$34 million over the Fiscal Year 2004-05 Adopted Operational Plan. This increase is primarily due to negotiated salary and benefit increases for public safety group departments but also includes resources to: open one dorm at the Probation Department's Juvenile Ranch Facility which will expand sentencing alternatives for youthful offenders; add one additional probation unit to supervise high-risk adult offenders; provide for increased operational and maintenance costs for detention facilities; maintain essential levels of safety and readiness; support increased costs of pharmaceuticals for jail inmates; add public defenders to



reduce the number of defense conflicts on high-level felony cases; and add two medical examiner investigators to decrease response times.

Key areas of focus in the coming year include:

- Strengthening the County's ability to respond to an emergency,
- Keeping communities safe with a continued focus on sex offenders, gang violence and crime associated with drug use, abuse, and sales,
- Completing enhancements to the Regional Communications System,
- Addressing emerging public safety issues including identity theft, human trafficking, mental health needs of offenders, and offender re-entry into the community,
- Implementing the DNA Fingerprint, Unsolved Crime and Innocence Protection Act (Proposition 69),
- Increasing the level of supervision of high-risk offenders,
- Reducing the number of defense conflicts on high-level felony cases,
- Promoting the well-being of children and the self-sufficiency of families through success in the child support program, and
- Expanding performance management activities within Public Safety departments.

**Health and Human Services Agency (HHSA)** — A net increase of 3.97% or \$69.6 million over the Fiscal Year 2004-05 Adopted Operational Plan. The net increase in the proposed budget is attributed to negotiated increases in salaries and benefits; caseload increases and the rising cost of doing business within the In-Home Supportive Services program; increased funding of County Medical Services for hospital and clinic services; and additional funds needed to prepare for implementation of the California Work Opportunities And Responsibility to Kids (CalWORKS)

Information Network (CalWIN) system to track welfare services. Cost reductions were achieved as a result of the Mental Health managed competition.

Key areas of focus in the coming year include:

- Keeping at-risk children and their families safe, healthy, and self-sufficient,
- Protecting the public's health through education and monitoring and responding to public health threats and other emergencies,
- Keeping vulnerable adults safe, healthy, and self-sufficient,
- Completing a comprehensive community-based planning process and beginning implementation of expanded mental health services funded by the Mental Health Services Act (Proposition 63),
- Improving operational productivity by reengineering public health field nurse services,
- Promoting fiscal stability by managing resources to maintain management reserves of at least \$5 million.

**Land Use and Environment Group** — An expenditure decrease of 7.1% or \$22.9 million from the Fiscal Year 2004-05 Adopted Operational Plan. The proposed decrease is primarily due to reduced services and supplies attributable to the completion of one-time projects and costs in response to Firestorm 2003, fire fuel reduction activities, and fewer planned purchases for Right of Way acquisitions.

The proposed decreases are offset by negotiated increases in salaries and benefits and capital asset increases due to normal fluctuations in capital funding.

Key areas of focus in the coming year include:

- Managing the County of San Diego Multiple Species Conservation Program (MSCP),
- Enhancing safety, education, and recreational activities for children and families,



## All Funds: Total Appropriations

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- Improving customer service by reengineering the Land Development Permitting Process,
- Continuing fire recovery efforts by rebuilding and improving parks and reserves and coordinating the Countywide Fuels Reduction Program,
- Protecting public health by monitoring and improving air, food, and water safety, and
- Maintaining and improving County roads.

**Community Services Group** — A net increase of 2.5% or \$5.83 million from the Fiscal Year 2004-05 Adopted Operational Plan. The proposed increase is principally due to negotiated increases in salaries and benefits offset by a net 12.50 staff year reduction; increased internal service fund costs for utilities, fuel, and external overheads; increased costs for newly opened branch libraries; and the costs of voter materials for the upcoming elections. Increases in costs are partially offset by decreases to align expenditures with available revenue in Housing and Community Development.

Key areas of focus in the coming year include:

- Improving voter opportunities and conducting elections,
- Expanding Library services and improving literacy,
- Providing superior, cost-effective internal service fund support to County departments,
- Increasing investment in energy saving technologies,
- Maintaining the County infrastructure through commitment to major maintenance,
- Protecting the public from dangerous animals and protecting animals from abuse and neglect,
- Helping to provide safe and sanitary affordable housing, and
- Completing construction projects including the Edgemoor Healthcare Complex.

**Finance and General Government Group** — A net increase of 4.6% or \$12.6 million from the Fiscal Year 2004-05 Adopted Budget. The proposed increase is due to negotiated increases in salaries and benefits based on negotiated labor contracts and the net addition of 4.00 staff years to support Countywide training and development programs and a shift of resources from the Health and Human Services Agency to County Counsel. In addition, services and supplies are proposed to increase due to the implementation costs of enterprise-wide information technology projects including the Integrated Property Tax System.

Key areas of focus in the coming year include:

- Implementing a fully integrated Property Tax System,
- Overseeing the information technology services follow-up contract,
- Maintaining a robust, diverse, and capable workforce,
- Improving the provision of vital records,
- Maintaining a high credit rating,
- Maintaining a strong Treasurer's Investment Pool,
- Providing the highest quality legal services to the Board and County departments,
- Maintaining the investment in modern information technology, and
- Maintaining the County's fiscal stability through sound accounting, auditing, budgetary practices, and management discipline.

**Capital** — A net decrease of \$1.6 million or 19.8% from Fiscal Year 2004-05. The net decrease is the result of the changing nature and costs of capital projects. Appropriations for new and existing capital projects include \$2.8 million for Multiple Species Conservation Program (MSCP) land acquisitions and approximately \$0.9 million for park playgrounds and improvements including Americans with Disabilities Act (ADA) upgrades.



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**Finance-Other** — A decrease of \$37.9 million or 11.2% from Fiscal Year 2004-05. This group of programs includes miscellaneous funds and programs that are predominantly Countywide in nature, have no staffing associated with them, or exist for proper budgetary accounting purposes. Included in this Group are such programs as the Contingency Reserve, the General Fund's Contribution to the Capital Outlay Fund and the Library Fund, Lease-purchase Payments on SANCAL bonds, the Employee Benefits Internal Service Fund, the Public Liability Internal

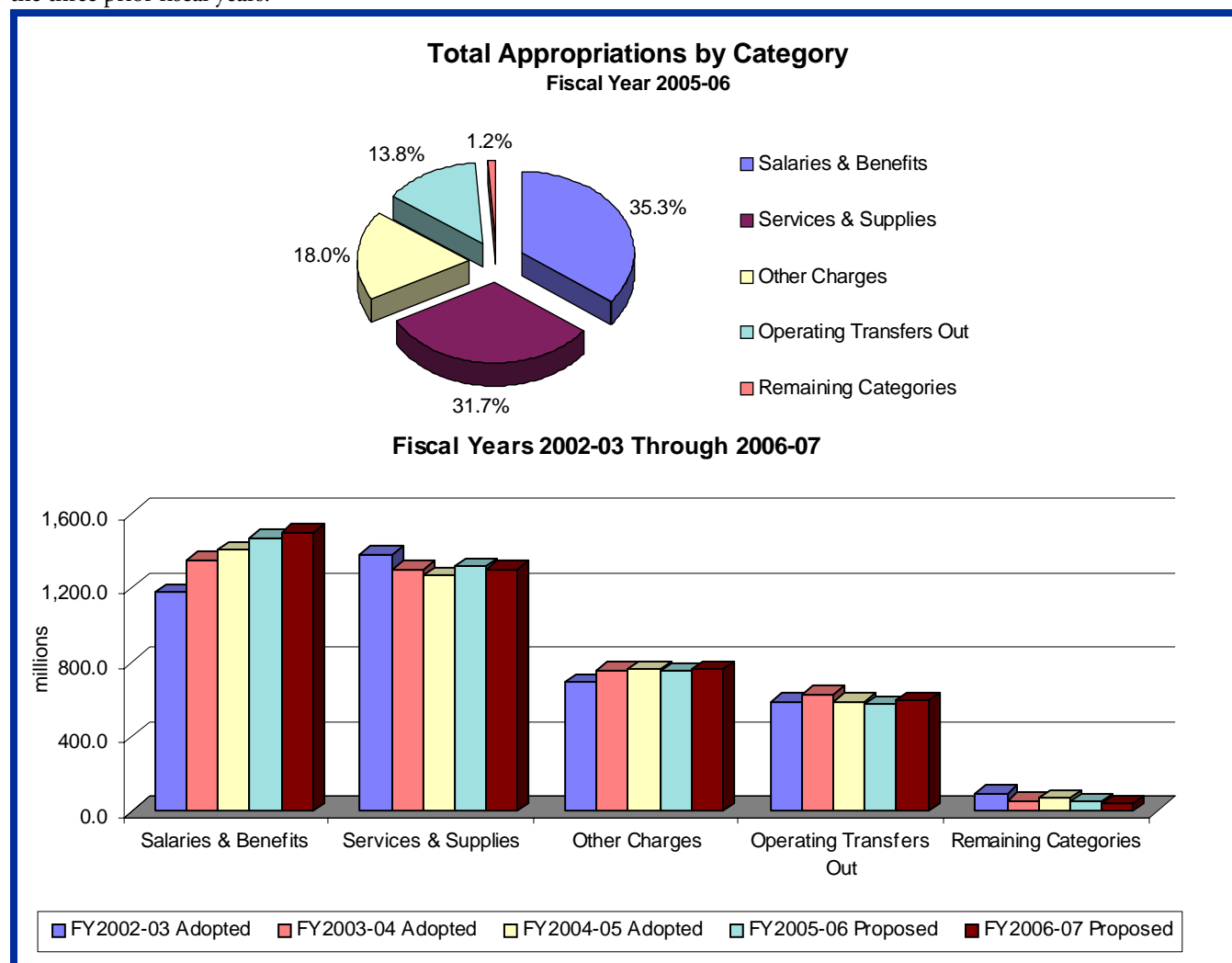
Service Fund, the Pension Obligation Bond (POB) Fund, the Community Enhancement Program, and the Community Projects Program. The decrease is the result of lower lease purchase payments; the one-time economic defeasance of the 1994 Pension Bonds in the prior year; and normal fluctuations in one-time items. There is a slight increase in the Employee Benefits ISF for Workers' Compensation including an increase in the Workers' Compensation reserves.



## All Funds: Total Appropriations

### Total Appropriations by Category of Expenditures

The table and graph below show the Operational Plan broken down by category of expenditures. As noted above, the Fiscal Year 2005-06 Operational Plan is increasing overall by \$59.6 million from the Fiscal Year 2004-05 Adopted Budget and \$44.1 million in Fiscal Year 2006-07. The pie chart below shows the share of the Fiscal Year 2005-06 Operational Plan for each category of expenditures, while the bar chart and table compare the Fiscal Years 2005-06 and 2006-07 appropriations to the three prior fiscal years.







## All Funds: Total Appropriations

### Total Appropriations by Category (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Proposed Budget	Fiscal Year 2006-07 Proposed Budget
Salaries & Benefits	\$ 1,174.7	\$ 1,349.3	\$ 1,404.1	\$ 1,465.8	\$ 1,498.7
Services & Supplies	1,378.8	1,301.1	1,264.9	1,313.9	1,299.2
Other Charges	691.4	756.6	763.1	748.4	760.7
Capital Assets Land Acquisition	32.3	24.2	11.4	15.5	14.5
Capital Assets Equipment	19.7	18.2	41.4	14.6	13.5
Exp Transfer & Reimbursements	(19.2)	(16.1)	(16.1)	(17.4)	(17.9)
Reserves	11.4	11.1	15.7	15.7	15.7
Reserve/Designation Increase	22.9	6.5	4.6	5.5	4.6
Operating Transfers Out	587.4	628.5	587.5	571.6	593.6
Management Reserves	24.9	11.0	11.7	14.3	9.2
<b>Total</b>	<b>\$ 3,924.3</b>	<b>\$ 4,090.2</b>	<b>\$ 4,088.2</b>	<b>\$ 4,147.8</b>	<b>\$ 4,191.9</b>

Changes include:

- Salaries and Benefits are increasing by \$61.8 million or 4.4%. The amount for salaries and benefits reflects negotiated increases in base pay and health insurance along with required payments to the retirement fund. The smaller increase in Fiscal Year 2006-07 of \$32.9 million or 2.3% is due to a smaller estimated wage and benefit increase (see "Total Staffing" on page 30 for further detail regarding labor agreements and information on staffing changes by functional area).
- Services and Supplies are increasing by \$49.0 million or 3.9%. Increases are budgeted in many accounts within services and supplies, most notably a \$21.4 million increase in costs for senior programs including In-Home Supportive Services. Also proposed are increases for contract, consultant, and professional services, miscellaneous expenses, information technology costs, and internal service fund costs for major maintenance,

facilities maintenance, and fleet. Decreases are proposed in contracted road services, temporary contract help, maintenance of equipment, postage, minor equipment, and security systems rental. A slight decrease of 1.1% is proposed in Fiscal Year 2006-07.

- Other Charges are decreasing by \$14.7 million or 1.9%. Appropriations in this category are for items such as aid payments, debt service payments, interest expense, right of way easement purchases, and various contributions to other agencies including trial courts and community enhancement organizations. Decreases are proposed for payments in the General Relief, Seriously Emotionally Disturbed and Child Care programs and for bond redemption due to the one-time economic defeasance of Pension Bonds in the prior year Adopted Budget. Increases are budgeted in Support and Care of Persons due to an increase in Inmate Medical Costs and interest on bonds due to a change in budgeting methods. An increase of 1.6% is proposed for Fiscal Year 2006-07 due



## All Funds: Total Appropriations

to caseload increases in Foster Care, Aid for Adopted Children, and the Kinship Guardianship Assistance Program and right of way easements.

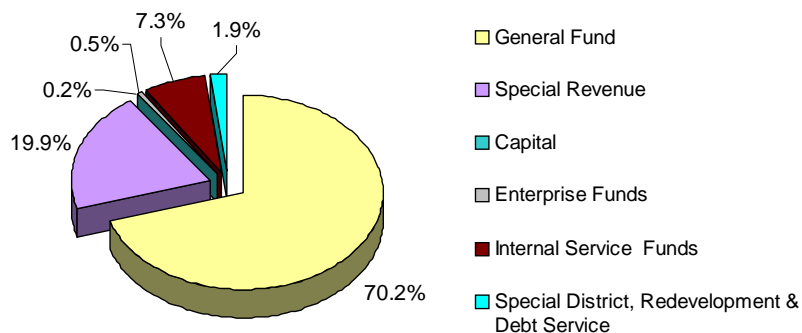
- Capital Assets/Land Acquisition appropriations, which include Capital Projects and Land Acquisitions, are increasing \$4.1 million or 36.1% from last year. Projects are proposed in the Capital Outlay Fund, the Airport Enterprise Fund, and the Alpine, Lakeside, and Spring Valley sanitation districts. The amount of money available for new projects or project expansion varies year-to-year, but capital appropriations at the project level are generally considered to be one-time. A decrease of 6.3% is proposed in Fiscal 2006-07 due to the changing nature and costs of projects.
- Capital Assets Equipment appropriations which primarily include routine internal service fund purchases of vehicle and heavy equipment, are decreasing by \$26.9 million or 64.9%, due to inclusion in the Fiscal Year 2004-05 Budget of appropriations for the Regional Communications System upgrade and a Fire/Life Safety helicopter. A decrease of 7.5% is proposed for Fiscal 2006-07 due to a preliminary estimate of lower requirements for that year.
- Reserves represent appropriated contingency reserves that are set aside for unanticipated needs during the year. For Fiscal Years 2005-06 and 2006-07 the General Fund Contingency Reserve is proposed to be \$15.6 million, the same amount as in Fiscal Year 2004-05. A contingency reserve of \$0.1 million is proposed for the Fleet Internal Service Fund, also unchanged from the prior year.
- Reserve/Designation Increases can vary from year to year depending upon the need to set aside fund balance for specific uses. Overall, there is a net increase of \$0.9 million, with increases in reserve/designations for the Workers' Compensation ISF (\$1.4 million), the Road Fund (\$2.0 million), and in three special districts (\$0.1 million). The general fund designation for the property tax system, budgeted at \$2.6 million in Fiscal Year 2004-05, has been discontinued thus offsetting the increases noted above. The \$4.6 million proposed for Fiscal Year 2006-07 is primarily for an additional contribution to the Worker's Compensation reserve (\$4.2 million), with the remainder in four special districts
- Operating Transfers Out, the accounting vehicle for transferring the resources of one fund to pay for activities in another, are decreasing by \$15.9 million or 2.7%. Various transfers between funds are increasing and decreasing with the largest decrease due to the reduction of the transfer from the General Fund to the Pension Obligation Bond Fund due to the one time 2004 economic defeasance of the 1994 POBs and the largest increases between the Proposition 172 and Realignment Special Revenue Funds and the General Fund. An increase of 3.9% is proposed for Fiscal Year 2006-07 due primarily to proposed increases in Proposition 172 and Realignment transfers to the General Fund.
- Management Reserves are increasing by \$2.7 million or 22.8%. The level of Management Reserves can vary from year-to-year. They are used to fund one-time projects or to serve as a prudent cushion for revenue and economic uncertainties at the Group/Agency level. A decrease of 35.5% is proposed for Fiscal Year 2006-07.



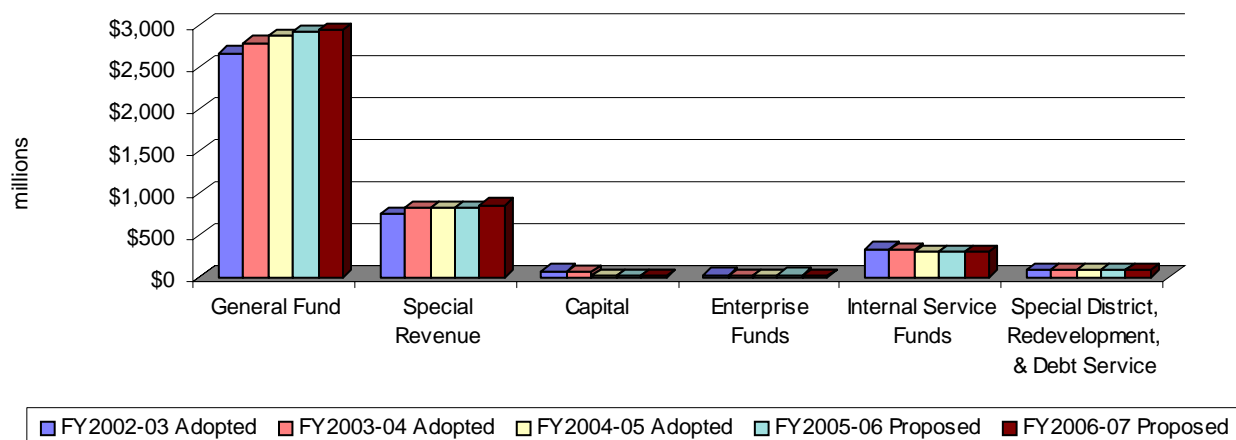
### Total Appropriations by Fund Type

The financial transactions of the County are recorded in individual funds and account groups. The State Controller prescribes uniform accounting practices for California counties. Various revenue sources are controlled and spent for purposes that require those funds to be accounted for separately. Accordingly, the following funds/fund types provide the basic structure for the Operational Plan. (See also “Basis of Accounting on page 60 and “Appropriations by Fund in Appendix B.)

**Total Appropriations by Fund Type  
Fiscal Year 2005-06**



**Fiscal Years 2002-03 Through 2006-07**





## All Funds: Total Appropriations

### Total Appropriations by Fund Type (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Proposed Budget	Fiscal Year 2006-07 Proposed Budget
General Fund	\$ 2,668.4	\$ 2,785.1	\$ 2,869.6	\$ 2,913.0	\$ 2,935.7
Special Revenue	757.5	814.5	814.0	826.0	857.0
Capital	68.5	67.8	8.2	6.6	5.7
Enterprise Funds	25.3	20.7	17.1	21.3	18.4
Internal Service Funds	330.7	324.0	295.4	302.4	293.7
Special District, Redevelopment & Debt Service	73.9	78.1	84.0	78.7	81.5
<b>Total</b>	<b>\$ 3,924.3</b>	<b>\$ 4,090.2</b>	<b>\$ 4,088.2</b>	<b>\$ 4,147.8</b>	<b>\$ 4,191.9</b>

### Governmental Fund Types

**General Fund** — accounts for all financial resources except those required to be accounted for in another fund. The General Fund is the County's primary operating fund.

**Special Revenue Funds** — account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes (other than for major capital projects). Examples include Road, Library, Realignment, and Proposition 172 revenue funds.

**Capital Project Funds** — account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds.)

**Debt Service Funds** — account for the accumulation of resources for, and the payment of, principal and interest on general long-term debt.

### Proprietary Fund Types

**Enterprise Funds** — account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of

providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Internal Service Funds** — account for the financing of goods or services provided by one department to other departments of the County, or to other governmental units, on a cost-reimbursement basis. Examples include the Facilities Management, Fleet, Purchasing and Contracting, Employee Benefits, Public Liability, and Information Technology Internal Service Funds.

### Appropriations Limits

Spending limits for the County are governed by the 1979 passage of California Proposition 4 (Article XIII B of the California Constitution) commonly known as the Gann initiative or Gann Limit. Proposition 4 places an appropriations limit on most spending from tax proceeds. The limit for each year is equal to the prior year's spending with upward adjustments allowed for changes in population



## All Funds: Total Appropriations

and the cost of living. Most appropriations are subject to the limit. However, Proposition 4 and subsequently Proposition 99 (1988), Proposition 10 (1998), and Proposition 111 (1990) exempt certain appropriations from the limit. These exemptions include capital outlay, debt service, local government subventions, new tobacco taxes, appropriations supported by increased gas taxes, and appropriations resulting from national disasters.

When the limit is exceeded, Proposition 4 requires the surplus to be returned to the taxpayers within two years. Appropriations in the two-year period can be averaged before becoming subject to the excess revenue provisions of the Gann limit. The spending limit for Fiscal Year 2005-06 will not be determined until the Fiscal year 2004-05 books are closed, but as shown in the following table, the County has been far below the Gann limit.

### San Diego County Appropriation Limit (in millions)

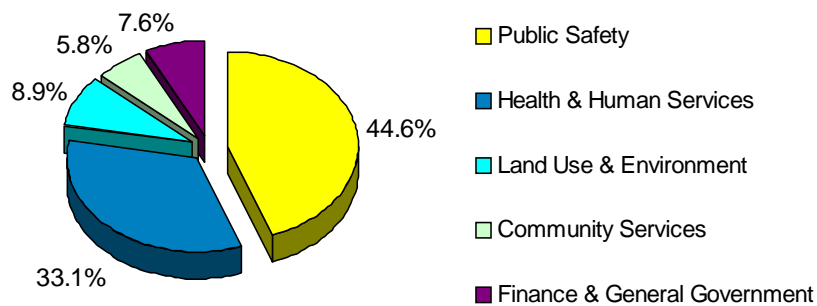
	Fiscal Year 2000-01	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05
Gann Limit	\$ 2,563	\$ 2,818	\$ 2,832	\$ 2,949	\$ 3,081
County appropriations subject to limit	\$ 587	\$ 633	\$ 597	\$ 714	\$ 717

## All Funds: Total Staffing

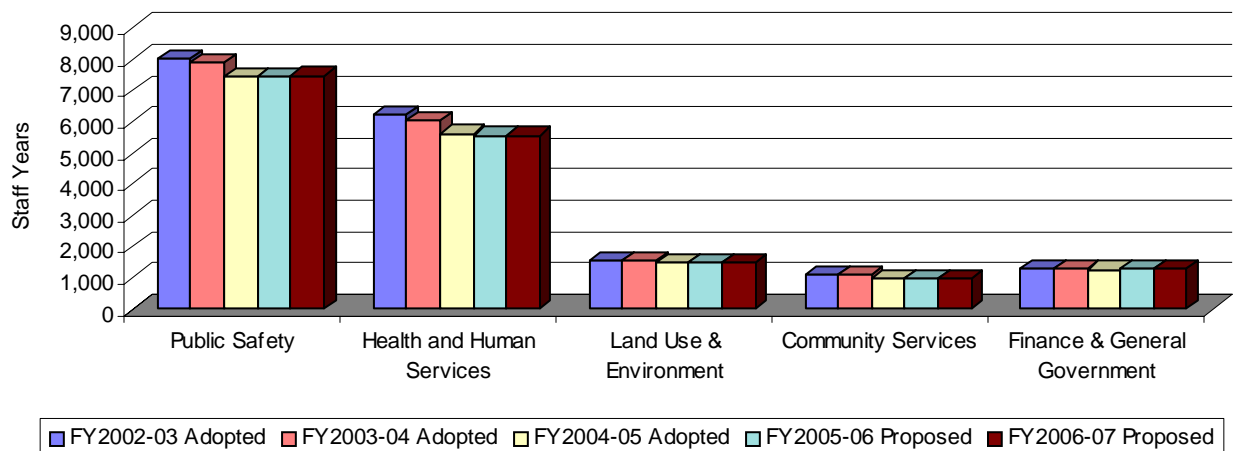
### Total Staffing

The Proposed Operational Plan staffing level for Fiscal Year 2005-06 is 78.20 staff years less than the Adopted Budget for Fiscal Year 2004-05, a decrease of 0.5% to 16,758.67 staff years. An increase of 19.00 staff years is expected in the second year of the Plan, 14.0 staff years in the Probation Department to augment staff who intensively manage the activities of the most serious adult offenders and 5.0 to provide staffing for a library scheduled to open in Fiscal Year 2006-07.

**Total Staffing by Agency/Group  
Fiscal Year 2005-06**



**Fiscal Years 2002-03 Through 2006-07**



**Staffing—Staff Years**

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Proposed Budget	Fiscal Year 2006-07 Proposed Budget
Public Safety	8,018.24	7,916.00	7,470.50	7,470.50	7,484.50
Health and Human Services	6,236.73	6,054.27	5,620.62	5,550.92	5,550.92
Land Use & Environment	1,544.25	1,529.00	1,492.00	1,492.00	1,492.00
Community Services	1,079.50	1,099.25	986.25	973.75	978.75
Finance & General Government	1,302.00	1,303.75	1,267.50	1,271.50	1,271.50
<b>Total</b>	<b>18,180.72</b>	<b>17,902.27</b>	<b>16,836.87</b>	<b>16,758.67</b>	<b>16,777.67</b>

Last year's Operational Plan reduced staff years by 1,065.40 and acknowledged that the County's workforce was at an unsustainable level due primarily to prolonged State budget imbalances. Over the past two years the County developed a strategy whereby some positions were deleted, some were frozen and others were temporarily funded to enable services to be redesigned in an orderly manner. The County is still in the process of deploying its labor resources to the programs and activities where they can do the most to achieve our strategic goals. The charts and table on this and the previous page show the total staff years by Group and the year-to-year changes.

The Fiscal Year 2005-06 decrease of 78.20 staff years is a net amount with reductions in some areas and increases in others where there is a compelling reason to redirect resources. The Health and Human Services Agency (HHSA) proposes a reduction of 69.70 staff years or (1.2%) primarily resulting from the re-engineering/outsourcing of Mental Health services through the managed competition process. The Community Services Group (CSG) proposes a net reduction of 12.50 staff years or (1.3%). In CSG, Housing and Community Development proposes a reduction of 18.00 staff years to align staffing with available revenue and small increases are proposed by the Registrar of Voters and the Library.

The Finance and General Government Group proposes a net increase of 4.00 staff years as a result of restoring staff years for Human Resources training and development positions that were reduced to part-time last year and the transfer in of 2.00 staff years from HHSA to County Counsel for public guardian/administrator activities.

Although the Public Safety Group (PSG), as a whole, reflects no changes, Child Support Services proposes a decrease of 60.00 staff years to align staffing with the available revenues. Conversely, five other PSG departments propose increasing staff. Probation proposes to increase by 32.00 staff years to operate an additional dorm at the Juvenile Ranch Facility and to add a unit to supervise high risk young adult probationers. The Public Defender and the Alternate Public Defender are proposing to increase staff years by 18.00 and 6.00, respectively, to represent indigent clients in all court appointed cases. The Office of Emergency Services proposes to add 4.00 staff years for Homeland Security activities as approved by the Board of Supervisors in Fiscal Year 2004-05 and the Medical Examiner proposes to add 2.00 staff years to decrease response times.

Additionally, the Land Use and Environment Group (LUEG) reflects no net changes although staffing is proposed to shift between LUEG departments. The





## All Funds: Total Staffing

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Department of Public Works would see a reduction of 5.00 staff years with offsetting increases in Agriculture, Weights, and Measures, and the LUEG Executive Office.

More detail on staff year changes can be found in each department/program section of the Operational Plan that follows.

### Labor Agreements

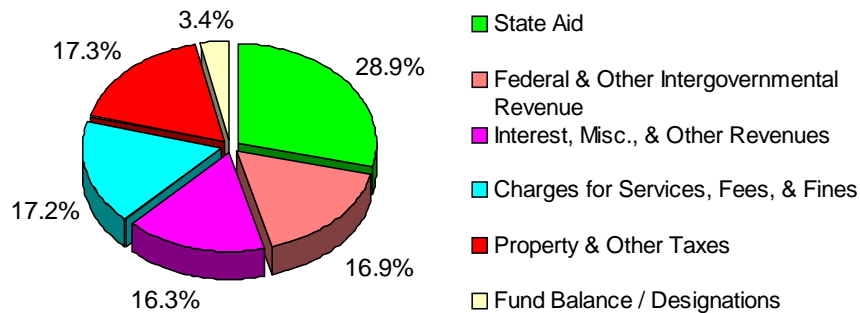
Fiscal Year 2005-06 is the final year of five-year salaries and benefits agreements for most of the County's bargaining units. Only two bargaining groups have agreements that extend through Fiscal Year 2006-07. The agreements included base pay, health insurance, and retirement adjustments.

## All Funds: Total Revenues

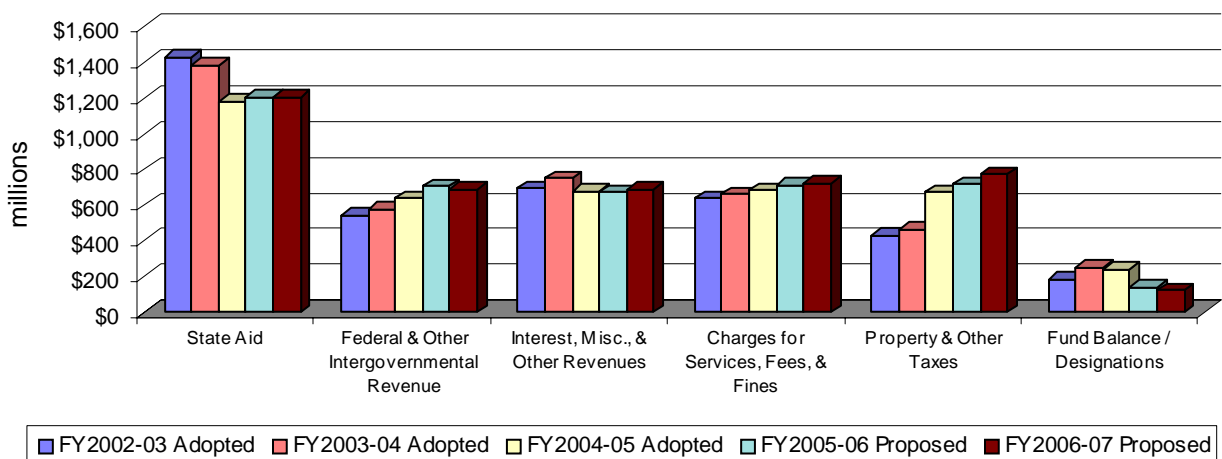
### Total Revenues by Source

Total resources available to support County services for Fiscal Year 2005-06 are expected to be \$4.15 billion. This is an increase of \$59.6 million or 1.5% from the Fiscal Year 2004-05 Adopted Operational Plan. Total resources are anticipated to increase an additional \$44.1 million or 1.1% in Fiscal Year 2006-07. For Fiscal Year 2005-06, State aid (\$1.2 billion), federal aid (\$618.0 million), and other intergovernmental revenue (\$84.9 million) combined will supply 46.0% of the financing sources for the County's budget. In comparison, locally generated taxes, including property tax, property tax in lieu of Vehicle License Fees (VLF), sales tax, real property transfer tax, transient occupancy tax, and miscellaneous other revenues, account for only 17.3% of the financing sources for the County's budget.

**Total Revenues by Source  
Fiscal Year 2005-06**



**Fiscal Years 2002-03 Through 2006-07**





## All Funds: Total Revenues

### Total Revenues by Source (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Proposed Budget	Fiscal Year 2006-07 Proposed Budget
State Aid	\$ 1,426.0	\$ 1,382.5	\$ 1,178.5	\$ 1,200.4	\$ 1,204.7
Federal & Other Intergovernmental Revenue	544.0	578.1	636.7	703.0	686.1
Interest, Misc., & Other Revenues	694.6	747.8	678.9	674.1	686.5
Charges for Services, Fees, & Fines	639.5	661.2	682.3	711.4	720.2
Property & Other Taxes	433.0	465.5	671.5	717.1	772.1
Fund Balance	187.3	255.1	240.4	141.8	122.3
<b>Total</b>	<b>\$ 3,924.3</b>	<b>\$ 4,090.2</b>	<b>\$ 4,088.2</b>	<b>\$ 4,147.8</b>	<b>\$ 4,191.9</b>

The remaining \$1.5 billion in financing sources (36.8%) include charges for current services, operating transfers from Realignment, Proposition 172 and other inter-fund sources, fund balance, reserve/designation decreases, and other miscellaneous sources.

The table above shows State aid, federal aid and other intergovernmental revenue, charges for services, fees and fines, and property and other taxes with a combined increase of \$163.0 million or an overall moderate increase of 5.1%. Reductions totaling \$103.4 million in the use of fund balance/reserves and interest, miscellaneous and other revenues represent an 11.2% reduction in these sources. Although the mix of resources has changed, net growth in Fiscal Year 2005-06 is 1.5%.

State aid is expected to increase \$22.0 million overall in Fiscal Year 2005-06. This is largely due to anticipated increases in special fund revenues in Proposition 172 (\$18.5 million) and Realignment (\$34.9 million) for Fiscal Year 2005-06, offset by some re-categorizing of aid from State to federal accounts substantially within Health and Human Services. See the Summary of General Fund Financing

Sources for additional detail on the budgeting of the Realignment and Proposition 172 revenues in Fiscal Year 2005-06.

Federal and other governmental revenue will increase 10.4% (\$66.3 million) primarily due to projected increases in Health and Human Services again as a result of re-categorizing revenue from State to federal accounts and from increases in Aging and Independence Services (In-Home Supportive Services) and Behavioral Health Services.

Interest, misc. & other revenues are anticipated to decrease marginally by \$4.8 million.

Charges for services, fees, and fines are expected to increase by \$29.1 million; some of the increases across the County are in the Sheriff's Department, Probation, and the Contribution for Trial Courts for PSG, and in Public Works, Environmental Health and the Air Pollution Control District in LUEG.

Property and other taxes are projected to increase by \$45.6 million as a result of an active real estate market and a strong local economy. The increase in assessed value is expected to exceed 10% for Fiscal Year 2005-06. Property taxes are,



therefore, expected to increase by \$43.4 million with the bulk of the increase (\$40.9) being in the General Fund, while the Library fund expects an increase of \$2.1 million and all other special funds combined anticipate an approximate increase of \$0.4 million. Anticipated growth in Taxes Other Than Current Secured is expected to be a net \$2.2 million, with a projected increase in the General Fund of \$14.7 million, offset by decreases in special fund revenues of \$11.9 million, and all other sources decreasing by \$0.6 million. The General Fund projected increase is partially due to the increase in Real Property Transfer Taxes of \$8.3 million, Sales Tax Revenue projected growth of \$0.6 million, supplemental property tax anticipated increases of \$2.0 million, growth in property tax in lieu of VLF of \$3.6

million, and other revenue adjustments. The primary decrease in special fund revenues is based on the projected \$11.8 million decrease in TransNet funding in the Department of Public Works related to adjustments in the detailed work program.

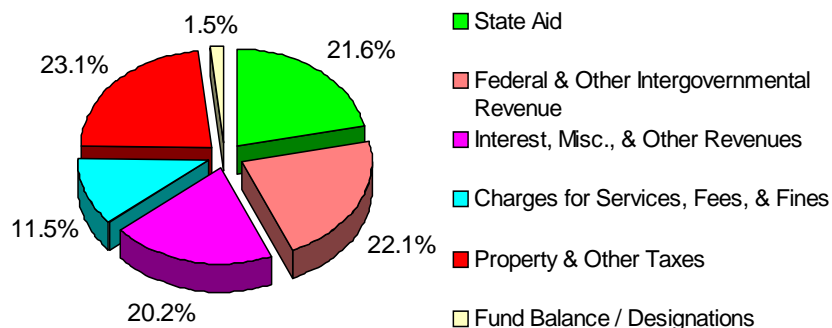
Finally, the use of fund balance and reserves/designations is anticipated to decrease \$98.1 million in Fiscal Year 2005-06 due to normal fluctuations in one-time projects. The projected decrease in fund balance is primarily in the General Fund. See the individual Agency/Group sections of this Operational Plan for the breakdown of financing sources by department. The following sections focus on General Fund financing sources.

# Summary of General Fund Financing Sources

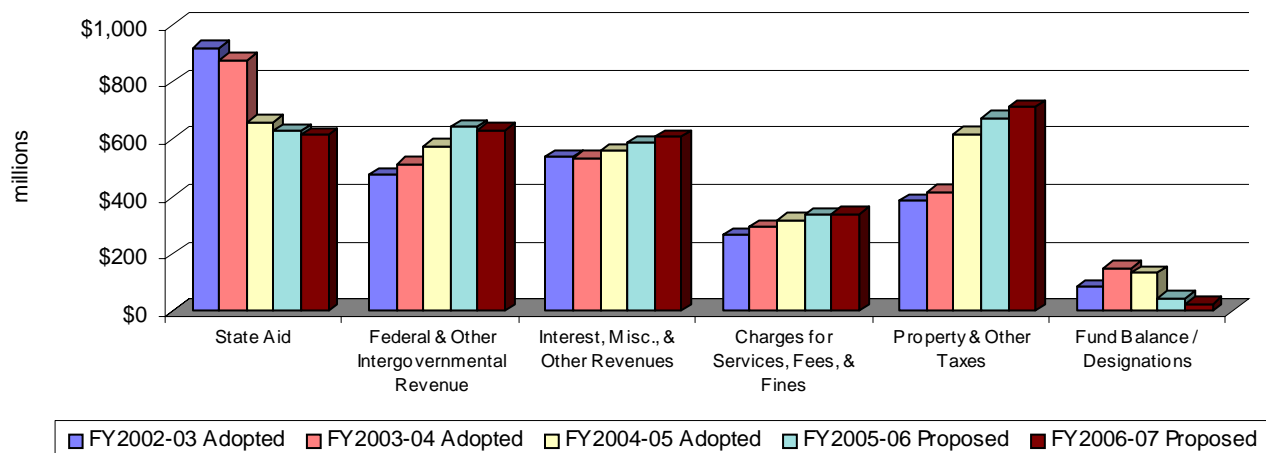
## Summary of General Fund Financing Sources

The largest single fund and the fund that is responsible for most County services is the General Fund. General Fund Financing Sources are expected to total \$2.9 billion for Fiscal Year 2005-06, a \$43.4 million or 1.5% increase from Fiscal Year 2004-05. Total General Fund resources are expected to increase by \$22.7 million or 0.8% in Fiscal Year 2006-07. The low growth rates for Fiscal Year 2005-06 and Fiscal Year 2006-07 are largely due to a reduction in the use of fund balance compared to previous years. Overall, the previous three fiscal years saw growth rates of 6.1% or \$152.7 million (2002-03), 4.3% or \$116.6 million (2003-04), and 3.0% or \$84.5 million in 2004-05.

**General Fund Financing Sources  
Fiscal Year 2005-06**



**Fiscal Years 2002-03 Through 2006-07**





## Summary of General Fund Financing Sources

### General Fund Financing Sources (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Proposed Budget	Fiscal Year 2006-07 Proposed Budget
State Aid	\$ 920.8	\$ 878.3	\$ 660.6	\$ 628.6	\$ 615.2
Federal & Other Intergovernmental Revenue	476.3	513.4	577.9	643.3	631.0
Interest, Misc., & Other Revenues	538.6	534.8	560.5	587.2	607.4
Charges for Services, Fees, & Fines	265.5	293.6	319.7	335.6	341.1
Property & Other Taxes	383.7	415.7	617.8	673.5	714.5
Fund Balance / Designations	83.5	149.2	133.2	44.8	26.5
<b>Total</b>	<b>\$ 2,668.4</b>	<b>\$ 2,785.1</b>	<b>\$ 2,869.6</b>	<b>\$ 2,913.0</b>	<b>\$ 2,935.7</b>

The charts and table above show the same breakdown of financing sources as shown for all funds combined, beginning on page 33. The General Fund revenue trends are generally similar to the all funds trends and significant

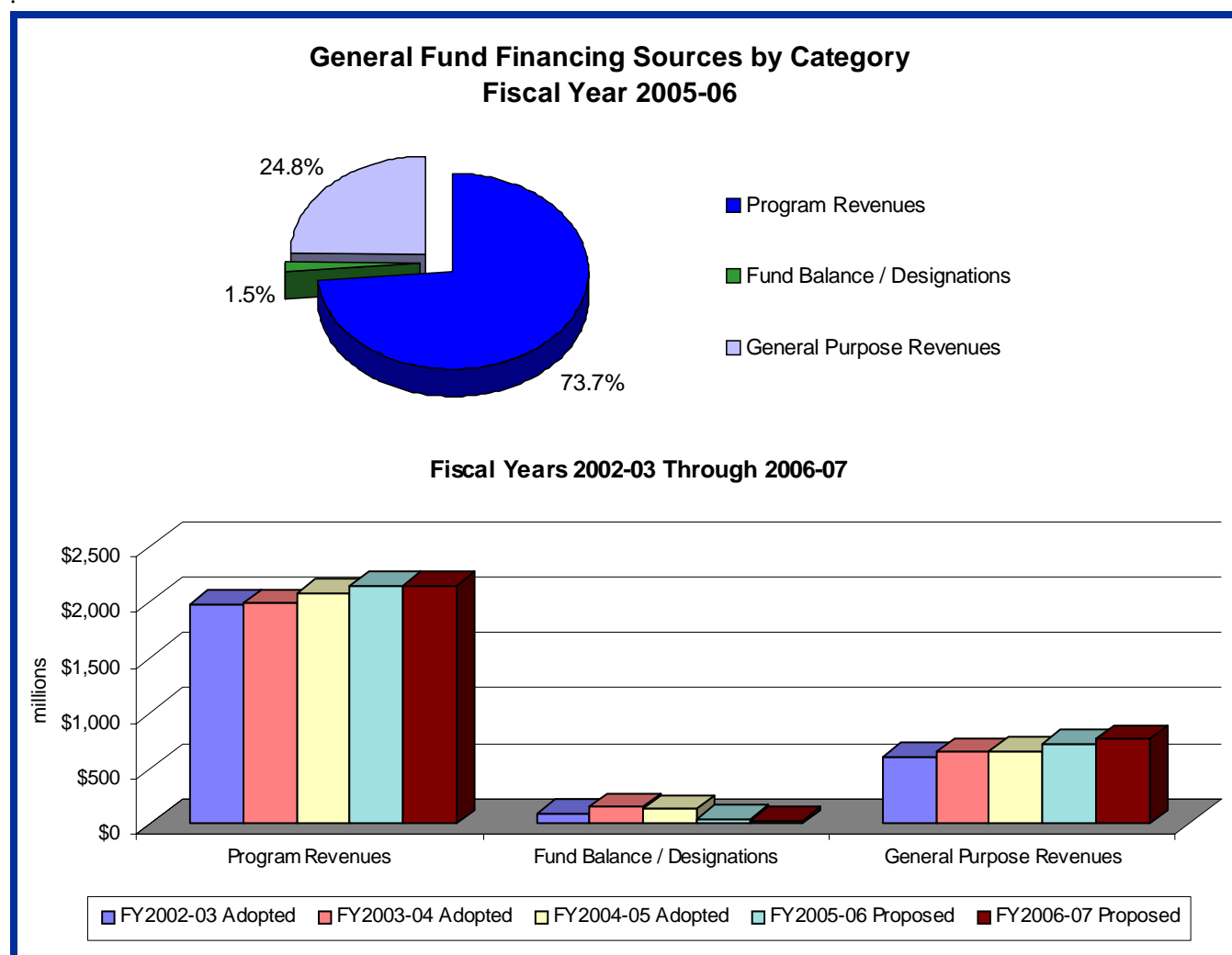
changes were noted in that previous discussion. The following sections give a different view of General Fund financing sources and highlight key revenues.



## Summary of General Fund Financing Sources

### General Fund Financing Sources by Category

General Fund Financing Sources can be categorized as one of three types: Program Revenues, General Purpose Revenues, or Fund Balance (including reserve/designation decreases).







## Summary of General Fund Financing Sources

### General Fund Financing Sources by Category (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Proposed Budget	Fiscal Year 2006-07 Proposed Budget
Program Revenues	\$ 1,976.9	\$ 1,989.3	\$ 2,079.0	\$ 2,147.2	\$ 2,146.2
Fund Balance	83.5	149.2	133.2	44.8	26.5
General Purpose Revenues	608.0	646.6	657.4	721.0	763.0
<b>Total</b>	<b>\$ 2,668.4</b>	<b>\$ 2,785.1</b>	<b>\$ 2,869.6</b>	<b>\$ 2,913.0</b>	<b>\$ 2,935.7</b>

**Program Revenues** total \$2.15 billion in Fiscal Year 2005-06. These revenues make up 73.7% of General Fund Financing Sources in Fiscal Year 2005-06, and are derived from State and federal subventions and grants, charges and fees earned from specific programs, Proposition 172- Public Safety Sales Tax, State Realignment Funds, and Tobacco Settlement funds, among others. Program Revenues, which as the name implies, are dedicated to and can be used only for the specific programs they are associated with, are expected to increase by 3.3% over the Fiscal Year 2004-05 Adopted Budget. The average annual growth for the last four years was 5.2%. State, federal, and other intergovernmental funds of \$1.27 billion in Fiscal Year 2005-06 comprise 59% of Program Revenues, maintaining roughly the same percentage of program revenues as in Fiscal Year 2004-05. The largest single sources of Program Revenues include:

- **Tobacco Settlement Revenues** (\$31.7 million in Fiscal Year 2005-06 and \$28.3 million in Fiscal Year 2006-07) by Board policy are dedicated to health-based programs. These revenues are the result of the historic Master Settlement Agreement between the Attorneys General of California and several other states and the four major tobacco companies in 1998. The agreement provided over \$206 billion in Tobacco Settlement Payments over 25 years in exchange for the release of all past, present,

and future claims related to the use of tobacco products. California agreed to distribute its share of the settlement to its counties based on population.

To reduce the risk of non-receipt of the Tobacco Settlement Payments, some counties and states opted to securitize these payments. Securitization is a process whereby the owner of the receivable sells the right to that income stream to a third party in exchange for an up-front payment. The County of San Diego helped to pioneer this process and received \$466 million in January 2002 in exchange for its Tobacco Settlement Payments. These proceeds will enable the County to fund approximately \$27.3 million of health care programs annually through approximately 2020. The \$31.7 million anticipated to be utilized in Fiscal Year 2005-06 reflects \$7.1 million in one-time, non-securitized Tobacco Settlement funds and \$24.6 million in Securitized Tobacco funds.

- **Realignment Revenues** (\$288.9 million in Fiscal Year 2005-06 and \$302.8 million in Fiscal Year 2006-07) are received from the State to support health, mental health, and social services programs. The term Realignment refers to the transfer in 1991 of responsibility from the State to counties for certain health, mental health, and social services programs, along with the provision of dedicated sales tax and vehicle license fee (VLF) revenues to pay for these changes. While generally considered successful, the slowdown in the economy caused the



## Summary of General Fund Financing Sources

dedicated revenue stream to lag caseload growth. The annual growth from Fiscal Year 2000-01 to Fiscal Year 2002-03 was only 1.3%. This trend seems to be reversing, allowing a proposed 2.8% expenditure increase in Fiscal Year 2005-06 and a 4.6% increase in Fiscal Year 2006-07.

- **Proposition 172-Public Safety Sales Tax Revenues** (\$220.5 million in Fiscal Year 2005-06 and \$228.9 million in Fiscal Year 2006-07) support core programs and services of three departments in the Public Safety Group - the Sheriff, District Attorney and Probation. The revenue source is a dedicated one-half cent increase in the statewide sales tax that was approved by the voters in 1993 and is distributed to counties and cities based on the relative levels of taxable sales in each county to the total taxable sales in all qualified counties. In Fiscal Year 2001-02, revenues generated were 4.2% below actuals received in Fiscal Year 2000-01 due to reduced statewide taxable sales. During Fiscal Years 2002-03 and 2003-04 these revenues increased by 6.1% and 10.3%, respectively. For Fiscal Years 2005-06 and 2006-07 respectively, increases of 9.2% and 3.8% are projected. The 9.2% increase in budgeted revenues from Fiscal Year 2004-05 to Fiscal Year 2005-06 is in part a base adjustment due to the late notification from the State of revenue received for Fiscal Year 2003-04. This information was not received in time for revised amounts to be included in the Fiscal Year 2004-05 Adopted Budget. Also included in Fiscal Year 2005-06 is the use of \$2.6 million in carryover funds received but not appropriated in previous fiscal years for specific one time uses in the designated departments. After allowing for the base adjustment and the use of carryover funds, the projected growth in Proposition 172 revenues in Fiscal Year 2005-2006 is a moderate 3.9% over the anticipated actual revenues for Fiscal Year 2004-05.

**General Purpose Revenues** (\$721.0 million in Fiscal Year 2005-06 and \$763.0 million in Fiscal Year 2006-07) make up 24.8% of General Fund Financing Sources. Please see the separate discussion of General Purpose Revenues beginning on page 42.

**Fund Balance** (\$44.8 million in Fiscal Year 2005-06 and \$26.5 million in Fiscal Year 2006-07), including reserve/designation decreases, represents 1.54% of General Fund Financing Sources in Fiscal Year 2005-06. This resource is used for one-time expenses, not for the support of ongoing operations. Fund Balance is the result of careful management of resources Countywide in past years. As of the Fiscal Year 2004-05 second quarter budget status report to the Board of Supervisors, the projected year fund balance from departmental operations was \$74.4 million. Third quarter projections were not available as of this writing, but are anticipated to show an improvement over the second quarter projections. The actual amount of fund balance will not be known until the books have been closed for the year in August. The County typically does not utilize all of the anticipated fund balance in preparing its Operational Plan. Instead, needs for one-time resources are assessed on a continuing basis and proposals are brought to the Board during the fiscal year on an individual basis or as part of quarterly budget status reports. The County of San Diego's unreserved, available Fund Balance was \$225.9 million at the end of Fiscal Year 2000-01, \$234.6 million after Fiscal Year 2001-02, \$269.0 million after Fiscal Year 2002-03, and \$215.4 million after Fiscal Year 2003-04.

In the Proposed Operational Plan, General Fund fund balance is used as the funding source for various one-time or project specific purposes such as temporary staffing, the purchase of safety and other equipment, management reserves, offsets for the costs of processing building permits for victims of Firestorm 2003, set aside for the multi-year cost of the enterprise-wide Documentum document management system, required match for the multi-year



## Summary of General Fund Financing Sources

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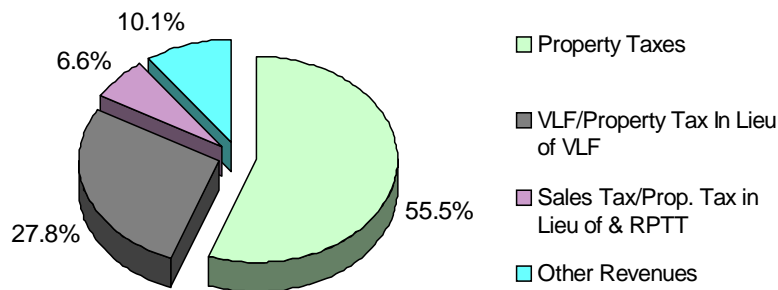
Stormwater grant, one-time technology projects, County Administration Center (CAC) major maintenance projects, and awarding Community Projects grants.

# General Purpose Revenues

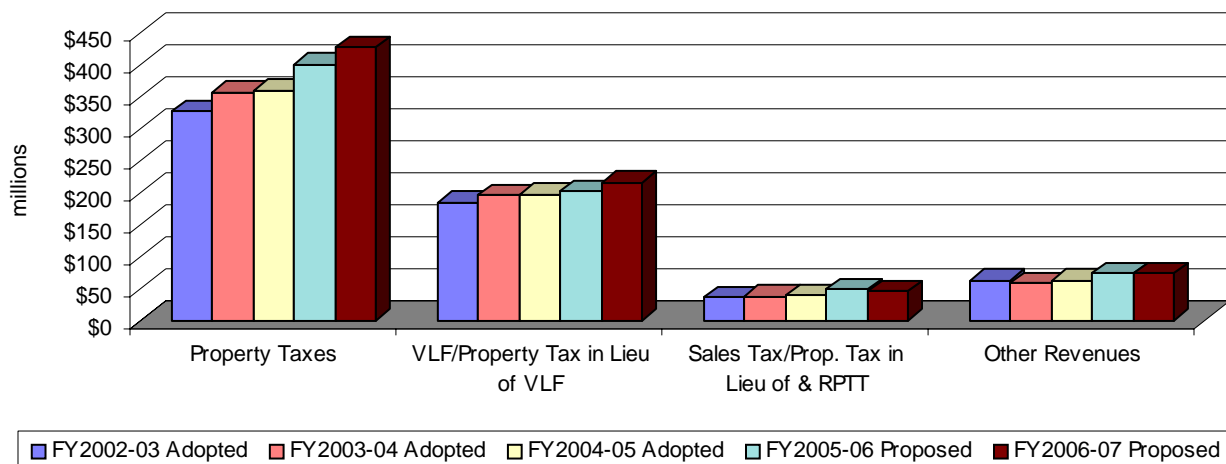
## General Purpose Revenues by Source

General Purpose Revenues for Fiscal Years 2005-06 and 2006-07 are estimated at \$721.0 million and \$763.0 million respectively. As noted above, they represent approximately 24.8% of General Fund Financing Sources. The revenues come from property taxes, property tax in lieu of vehicle license fees (VLF), sales taxes (and property tax in lieu of sales tax), real property transfer tax (RPTT), and miscellaneous other sources. They may be used for any purpose that is a legal expenditure of County funds. The Board, therefore, has the greatest flexibility in allocating these revenues.

**General Purpose Revenues by Source  
Fiscal Year 2005-06**



**Fiscal Years 2002-03 Through 2006-07**





### General Purpose Revenues by Source (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Proposed Budget	Fiscal Year 2006-07 Proposed Budget
Property Taxes	\$ 326.6	\$ 356.2	\$ 359.5	\$ 400.5	\$ 427.8
VLF/Property Tax in Lieu of VLF	184.7	195.0	196.9	200.5	215.6
Sales Tax, RPTT, In Lieu of Sales Tax	34.6	37.0	38.6	47.5	45.4
Other Revenues	62.1	58.4	62.4	72.5	74.2
<b>Total</b>	<b>\$ 608.0</b>	<b>\$ 646.6</b>	<b>\$ 657.4</b>	<b>\$ 721.0</b>	<b>\$ 763.0</b>

The growth in these revenues is principally affected by the local and State economies. In recent years, San Diego's economy has outperformed both State and national growth. Evidence of San Diego's local economic health is reflected in the County's General Purpose Revenues with a 5.5% annual average growth for Fiscal Years 2000-01 through 2004-05. These increases were the result of solid local employment, rising income levels, and population growth. The growth in local resources was dampened, however, last year when the State of California shifted \$27.5 million in County property taxes to schools as part of a two year agreement for Fiscal Years 2004-05 and 2005-06 to help the State contend with its budget crisis. The County's Fiscal Year 2005-06 General Purpose Revenues budget reflects the second \$27.5 million reduction in property tax revenues.

For this planning period, an overall growth rate of 9.7% is estimated (\$63.6 million) compared to the Fiscal Year 2004-05 Adopted Operational Plan. It should be emphasized that these estimated revenues were determined by considering the major structural changes that were introduced and adopted in the State of California's Fiscal Year 2003-04 and 2004-05 budgets, the passage of SB 1096 and AB 2115, and the voters' approval of Proposition 57 in March 2004 and Proposition 1A in November 2004. Fundamental changes have been made with significant impact to the County's

discretionary General Purpose Revenue sources. First, the State eliminated the entire amount of the County's general purpose Vehicle License Fee (VLF) revenue, which constituted approximately 30% of the County's General Purpose Revenues from Fiscal Years 2001-02 through 2003-04. Previously, general purpose VLF revenue was a State controlled distribution of taxes imposed on vehicle owners based on the value of the vehicles. The State replaced this revenue with a transfer from the Educational Revenue Augmentation Fund (ERAF) to each County's VLF Property Tax Compensation Fund. (The State required counties to establish an ERAF in Fiscal Year 1992-93 to capture the prescribed amounts of property tax to be shifted from local governmental agencies to local schools.) Further, the State redirected one-quarter cent of local sales and use tax to the State, and replaced it with a transfer from ERAF to each County's Sales and Use Tax Compensation Fund. Because Fiscal Year 2004-05 was the first full year these changes were implemented, components of these changes continue to be refined and assessed by the State and by local governments.

**Property Tax Revenues**, (\$400.5 million in Fiscal Year 2005-06 and \$427.8 million in Fiscal Year 2006-07), including current secured and unsecured, at 55.5% of the total, are the most significant source of General Purpose



## General Purpose Revenues

Revenues. For the last five years local property tax growth has been high (8.2% average annual growth excluding the State's 2004-05 property tax shift to schools) due to the County's strong overall economy and healthy real estate markets. At present, real estate activity is still strong due to stable, historically low mortgage rates, the limited supply of housing for sale, and the area's population growth. Property tax assessments are based on the value of County real and personal property. As noted above, per the two-year agreement with the State, the County anticipates relinquishing \$27.5 million in property tax revenues to the ERAF for Fiscal Year 2005-06. Despite this loss, property tax revenues in Fiscal Year 2005-06 are forecast to be \$40.9 million or 11.3% higher than budgeted for Fiscal Year 2004-05. With projected moderate growth in employment and income levels and housing values, property tax revenue growth of 6.8% or \$27.3 million is expected in Fiscal Year 2006-07. This growth estimate excludes the restoration of the \$27.5 million scheduled for Fiscal Year 2006-07 because of the significant uncertainty with respect to the State's ability to achieve a balanced budget in that year without re-borrowing local resources. Further complicating property tax revenue projections is the question of whether the distribution of supplemental property taxes changes as a result of tying the growth of revenues from the VLF Property Tax Compensation Fund to the increase in assessed value (see discussion below). If the distribution changes, the result would be positive for the County. It is premature, however, to factor these additional resources into our Operational Plan until this question is resolved.

**Property Tax in Lieu of Vehicle License Fees (VLF)** comprises 27.8% (an estimated \$200.5 million) of projected General Purpose Revenues in Fiscal Year 2005-06 and 28.3% (\$215.6 million) in Fiscal Year 2006-07. As noted above, this revenue source replaces the previous distribution of vehicle license fees to local governments. In Fiscal Year 2004-05, the State established initial allocations from the VLF Property Tax Compensation Fund to cities and counties.

The allocations for Fiscal Year 2005-06 are to be calculated based on a formula that takes into account adjusted actual allocations for Fiscal Year 2004-05 and growth in gross taxable assessed value in each county. The adjusted actuals are expected to not be available until September 2005. Absent knowing what the adjusted base will be, we have conservatively estimated receiving an amount equal to the original Fiscal Year 2004-05 State determined allocation. Early indications, however, indicate that there may be some improvement in this funding source as well.

This VLF/ERAF swap of funds follows State action during Fiscal Year 2003-04 to suspend VLF backfill payments during the first three months of that year. By August 2006 (Fiscal Year 2006-07), the State is required to make a one-time payment to counties and cities to make up for that suspension. The "loan" amount to be repaid to the County of San Diego is approximately \$60.0 million. On February 8, 2005, the Board of Supervisors authorized the securitization of the Vehicle License Fee (VLF) gap loan. As a result, the amount of the County's VLF gap loan will be paid to the providers of the securitization proceeds. The funds received were allocated by the Board to pay down approximately \$25.0 million of the County Retirement Fund's Unfunded Actuarial Accrued Liability (UAAL) and to pay \$32 million of the cost of developing a new Integrated Property Tax System (IPTs) in lieu of debt financing the project.

**Sales & Use Tax Revenue & In Lieu Local Sales & Use Tax**, (\$21.2 million in Fiscal Year 2005-06 and \$22.1 million in Fiscal Year 2006-07) represents about 2.9% of General Purpose Revenues and is derived from taxable sales by businesses located in unincorporated County areas. Its growth is generally impacted by population and income but is primarily due to economic development and new business formation in the County. These amounts reflect both the Sales Tax revenues and the In Lieu Local Sales & Use Tax replacement funding that will be transferred from ERAF. Again, effective July 1, 2004, provisions of AB7 X1, one of the 2003-04 State budget bills referred to as the "triple flip,"



took effect. It enabled the State to redirect one-quarter cent of the local sales and use tax to the State to repay up to \$15 billion in bonds authorized by Proposition 57 (March 2004) to help the State refinance its past debt. In turn, the lost revenues are replaced on a dollar-for-dollar basis with countywide property tax revenues shifted back from the ERAF. Retail sales remain relatively strong in the unincorporated area with a before-triple-flip-adjustment sales tax growth of \$0.6 million (3.0%) over the Fiscal Year 2004-05 Operational Plan in Fiscal Year 2005-06. Sales Tax growth, including the triple flip adjustment amount, in Fiscal Year 2006-07 is anticipated to be \$0.8 million (4.0%) over Fiscal Year 2005-06.

**Real Property Transfer Tax Revenue (RPTT)** for Fiscal Year 2005-06 is expected to reach \$26.3 million, a 46.3% increase over the Fiscal Year 2004-05 Adopted Operational Plan (\$18 million), reflecting growth primarily in residential activity as well as in industrial and retail real estate activity. A decrease of \$3.0 million or 11.4% is expected in Fiscal Year 2006-07. The anticipated drop in Fiscal Year 2006-07 revenues is based on anticipated slowing in housing turnover and new construction. The Real Property Transfer Tax is paid when any lands, tenements, or other realty exceeding \$100 in value are sold and granted, assigned, transferred or conveyed to the purchaser. The tax rate, set by the State, is \$1.10 per \$1,000 of assessed valuation. The

County collects 100% of all the transactions in the unincorporated area and 50% of the transactions in the incorporated areas.

**Other Revenues** for Fiscal Year 2005-06 are expected to total \$72.5 million and increase to \$74.2 million in Fiscal Year 2006-07. The Fiscal Year 2005-06 Proposed Operational Plan other revenues amount represents a 16.2% or \$10.1 million increase over the Fiscal Year 2004-05 Adopted Budget total. Various revenue sources make up this category including interest on deposits, fines, fees and forfeitures, redevelopment agency tax increment, prior year adjustments on property taxes, franchise revenue, aid from the City of San Diego in lieu of booking fees, and other miscellaneous revenues.

In Fiscal Year 2005-06, the increased revenues are primarily due to a budgeting adjustment for interest revenue (\$7.0 million) related to the County's short term cash borrowing program. In the past, premiums from the Cash Borrowing Program were accounted for as offsets to expense. However, they are now reflected as additional revenue based on current accounting practices. This increased revenue offsets the higher appropriations in the Cash Borrowing Program necessary to reflect the coupon rate on the Tax and Revenue Anticipation Notes (TRANs) rather than the net rate after the premium is applied.

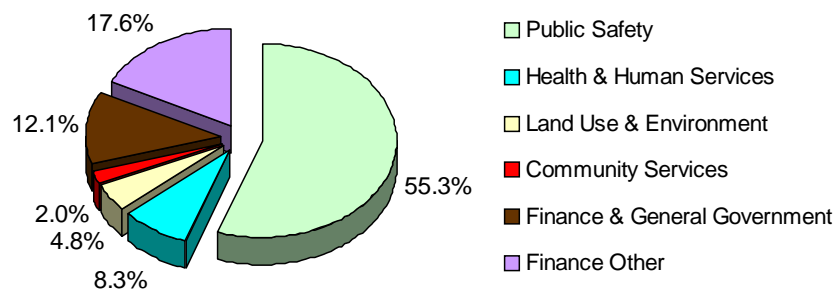




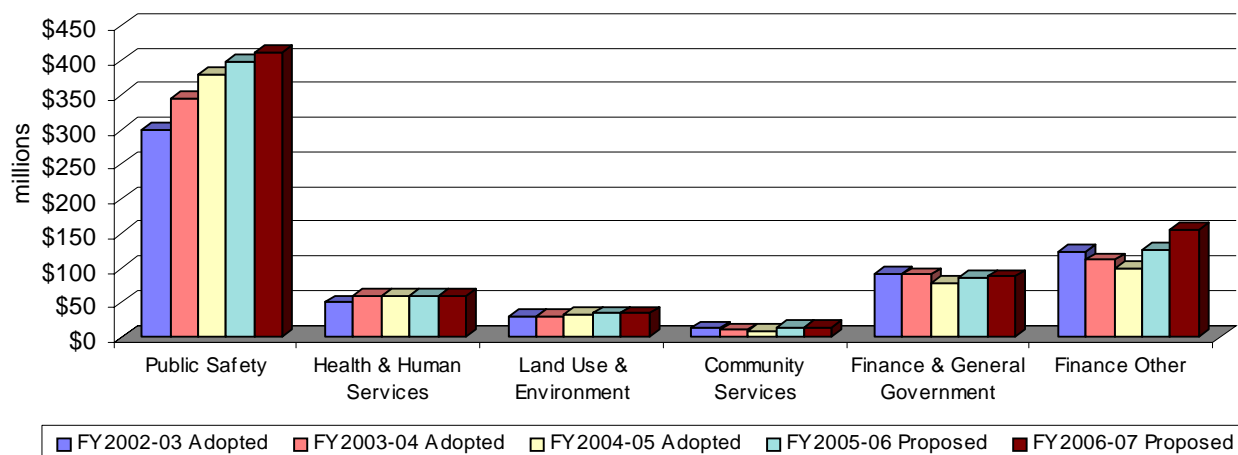
### Allocation of General Purpose Revenues by Group

General Purpose Revenues are allocated annually based on the strategic direction of the County as set by the Board of Supervisors. They are used to provide services or programs where program revenues are either limited or non-existent. The Public Safety Group, at 29% of the County's total budget, is proposed to spend 55% of the County's General Purpose Revenues. By contrast, the Health and Human Services Agency's budget represents 44% of the County total, but is proposed to receive 8% of the General Purpose Revenues. These allocation decisions are the result of a combination of available program revenues, federal/State service delivery mandates, and priorities set by the Board of Supervisors. The Public Safety

**General Purpose Revenue Allocation  
by Agency/Group  
Fiscal Year 2005-06**



**Fiscal Years 2002-03 Through 2006-07**





## General Purpose Revenues

### General Purpose Allocations by Agency/Group (in millions)

	Fiscal Year 2002-03 Adopted Budget	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Proposed Budget	Fiscal Year 2006-07 Proposed Budget
Public Safety	\$ 300.1	\$ 345.8	\$ 379.5	\$ 398.5	\$ 411.3
Health & Human Services	50.1	59.5	58.9	60.1	60.1
Land Use & Environment	29.3	29.3	33.3	34.4	33.9
Community Services	12.6	10.1	8.6	14.4	14.6
Finance & General Government	92.1	90.1	77.8	86.9	87.4
Finance Other	123.8	111.7	99.3	126.7	155.7
<b>Total</b>	<b>\$ 608.0</b>	<b>\$ 646.5</b>	<b>\$ 657.4</b>	<b>\$ 721.0</b>	<b>\$ 763.0</b>

Group provides services that receive limited federal and State funding, while the Health and Human Services Agency provides services that are mandated at some level by the federal and State governments and thus receive significant amounts of Program Revenue.

In Fiscal Year 2005-06, allocations are expected to increase by \$63.6 million, matching the increase in General Purpose Revenues. Fiscal Year 2006-07 allocations are proposed to increase an additional \$42.0 million.

Increased allocations in Fiscal Year 2005-06 are proposed to be used to fund such items as negotiated salary and benefit increases, major maintenance projects in buildings used by the public every day, Multiple Species Conservation Program (MSCP) land acquisition, support for the Registrar of Voters' electronic voting system and increased multi-language requirements for voting materials, additional staff resources in the Public Defender and Alternate Public

Defender departments to allow those agencies to accept all court appointed cases, and additional staffing in the Probation Department to provide the Court with additional sentencing alternatives for juveniles and to enhance supervision of adult offenders. The allocation increase for the Sheriff will provide funding for essential equipment and services to maintain readiness and safety, support the operation and maintenance costs associated with two new fire and life safety helicopters, add resources for the increased costs of operating jail facilities and for major maintenance projects to ensure safety and extend the life of facilities, and support increased costs of pharmaceuticals required for jail inmates. Further detail is provided in the Agency/Group and Department sections that begin on page 67. The above charts and table show the amount of General Purpose Revenues proposed to be used to support each Agency/Group for Fiscal Years 2005-06 and 2006-07.

## Capital Projects

### Capital Projects

The Capital Program Funds include proposed appropriations for new capital projects as well as previously approved but not yet completed capital projects. The following chart depicts the distribution of those appropriations.

#### Capital Appropriations

	Dollar Amount	Number of Projects
<b>Appropriation Increases for New &amp; Existing Capital Projects (2005–2006)</b>		
Capital Outlay Fund	\$ 3,707,000	9
Total—New Projects	\$ 3,707,000	9
<b>Projects Underway</b>		
Public Safety Group	\$ 10,202,181	18
Health & Human Services Agency	84,365,404	7
Land Use & Environment Group	39,687,437	103
Community Services Group	13,404,581	22
Finance & General Government Group	9,376,925	2
Total—Projects Underway	\$ 157,036,528	152
Grand Total	\$ 160,743,528	161

The Capital Program section of this Operational Plan on page 377 highlights major projects and includes a schedule of lease-purchase payments related to previously completed debt financed projects.

## Projected Reserves and Resources

### Projected Reserves and Resources

The County maintains a prudent level of reserves for various purposes. The tables below display the reserves and other available resources as of July 1, 2004 and the anticipated reserves and other available County resources as of July 1, 2005.

#### Projected County Reserves and Resources (in millions)

	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Proposed Budget
General Reserve	\$ 55.5	\$ 55.5
General Fund Contingency Reserve-Operations	15.6	15.6
Agency/Group Management Reserves	11.7	14.3
Debt Service Reserves	23.4	22.2
Environmental Trust Fund Reserves	84.1	76.3
Endowment Fund Tobacco Securitization SR	346.5	340.7
Workers' Compensation Reserve	34.0	37.4
Public Liability Reserve	19.5	19.5
<b>Total County Reserves and Resources</b>	<b>\$ 590.3</b>	<b>\$ 581.5</b>

#### Fund Balance Designations (General Fund only)

	Fiscal Year 2004-05 Adopted Budget	Fiscal Year 2005-06 Proposed Budget
Designated-E10K Complex	\$ 5.4	\$ 2.2
Designated-ERP Property Tax	10.4	0.0
Designated-Sheriff Capital Project	3.0	3.0
Designated-Dept. of Voter Registration	0.5	0.0
Designated-Planning and Land Use	2.0	2.0
Designated-Environmental Health	2.4	3.6
<b>Total Fund Balance Designations</b>	<b>\$ 23.7</b>	<b>\$ 10.8</b>

**General Reserve** — The \$55.5 million is set aside for any unforeseen catastrophic situations. By law, except in cases of a legally declared emergency, the General Reserve may only be established, cancelled, increased or decreased at the time of adopting the budget.

**General Fund Contingency Reserve** — The Contingency Reserve is appropriated for unforeseen economic and operational uncertainties during the fiscal year.



## Projected Reserves and Resources

**Agency/Group Management Reserves**— Appropriations established at the Agency/Group or department level to fund unanticipated items during the fiscal year.

**Debt Service Reserves**— These amounts represent the portion of bond proceeds for various County certificates of participation that are set aside in a reserve. These amounts provide assurance to the certificate holder that amounts are available in a reserve should the County not be able to make a lease payment from currently budgeted resources.

**Environmental Trust Fund Reserves**— Proceeds from the sale of the County's Solid Waste System on August 12, 1997 were set aside in trust to fund inactive/closed site management for approximately 30 years.

**Tobacco Securitization Endowment Fund**— The County established the Tobacco Securitization Endowment Fund in January 2002. In lieu of receiving the Tobacco Settlement revenue on an annual basis, the County securitized the payment stream and deposited the proceeds of \$412.0 million into the Tobacco Securitization Endowment Fund. Based on current assumptions of portfolio yield, these proceeds will enable the County to fund approximately \$27.3 million of health care programs annually through approximately 2020.

**Workers' Compensation Reserve**— Established for Workers' Compensation Claims liability. This reserve is reviewed annually. For Fiscal Year 2005-06 \$3.4 million will be added to the Workers' Compensation Reserve, and in 2006-07, \$4.2 million will be added to the Reserve.

**Public Liability Reserve**— Established to reflect contingent liabilities. An annual actuarial assessment is done to validate that the County is maintaining sufficient reserves. Currently, the available fund balance is more than double the actuarial requirement.

**Fund Balance Designations (General Fund only)**— The Board has determined from time to time that certain amounts of fund balance be designated for particular purposes. Balances can increase or decrease depending upon

whether the funds are being accumulated for later use or are being used because of fluctuating workloads or to make scheduled payments over a limited time. The current designations include the following:

- **Designated-E10K Complex**— This designation is for the first few years of the maintenance and support costs for the Enterprise Resource Planning system server complex as the County transitions from its previous mainframe and legacy systems environment.
- **Designated-ERP Property Tax System**— This designation was eliminated in 2004-05 upon the Board's decision to use a portion of the proceeds of the VLF securitization to pay for the new Integrated Property Tax System. The accumulated balance will be used for other one-time projects.
- **Designated-Sheriff Cap Project**— Established in Fiscal Year 1999-2000, this designation set aside revenue for future departmental capital expenditures
- **Designated-Dept. of Voter Registration**—The designation was established in Fiscal Year 2003-04 to provide sustained funding for those election years with few billable participating jurisdictions. In 2005-06, the department proposes to use the remaining balance of \$451,965 due to the deferral of funding from the State for SB90 Mandated Activities.
- **Designated-Planning and Land Use**— The Building/ Code Enforcement designation is set aside to balance revenue to costs for work in progress in coming fiscal years. The designation ensures that excess revenue over cost paid by Department of Planning and Land Use (DPLU) customers is used only to fund expenses related to building permit activities.
- **Designated-Environmental Health**— In Fiscal Year 2003-04, the Department of Environmental Health (DEH) established the fund balance designation to set aside any excess revenue over cost each fiscal year for use in a subsequent fiscal year when costs exceed revenue.



## Projected Reserves and Resources

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The designation ensures that excess revenue over cost paid by DEH customers is used only to fund expenses in DEH.

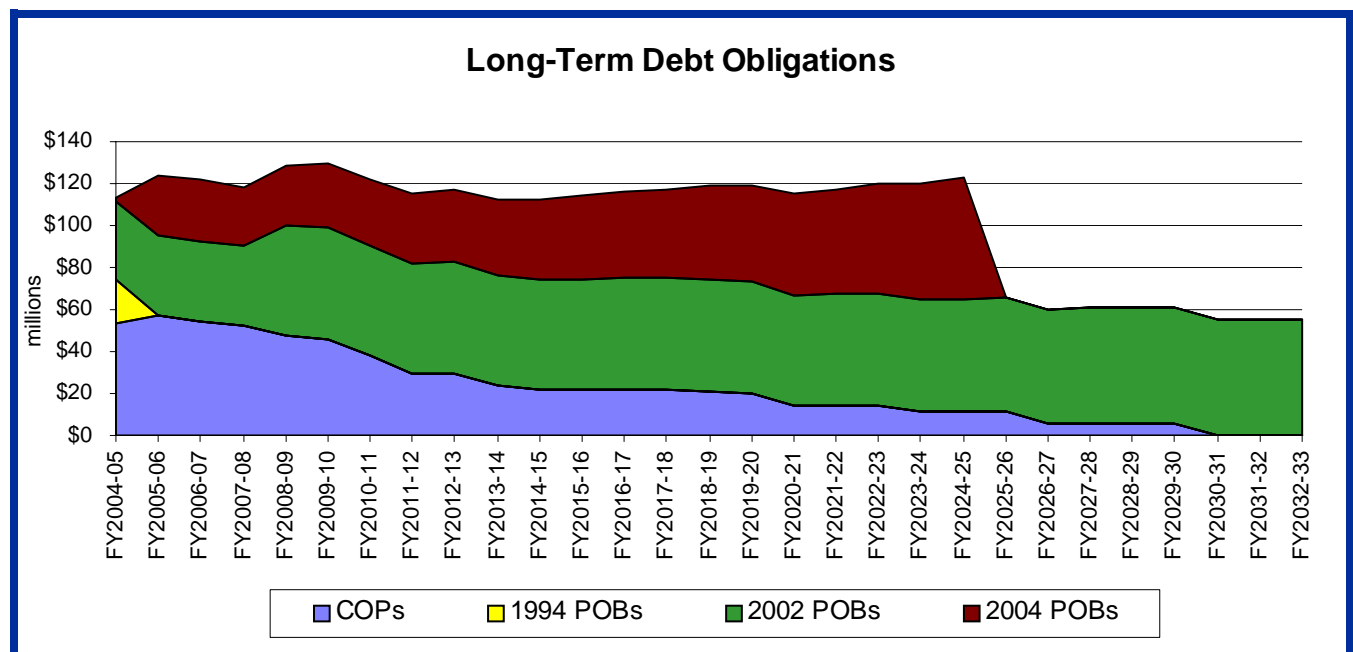
## Long- and Short-Term Financial Obligations

### Long-Term Obligations

The County has no outstanding general obligation bonds. The County's outstanding long-term principal bonded debt as of March 1, 2005 is:

Outstanding Principal Bonded Debt  
(in millions)

	Dollar Amount
Certificates of Participation	\$ 433.6
Pension Obligation Bonds	1,252.2
Redevelopment Agency Revenue Bonds	4.3
<b>Total</b>	<b>\$ 1,690.1</b>



The chart above shows the County's scheduled debt service payments through Fiscal Year 2032-33, including certificates of participation (COPs) and pension obligation

bonds (POBs). The following discussion explains the nature and purpose of each of these and other long-term financing instruments used by the County.





**Certificates of Participation (COPs)** were first used in 1955 with the financing of the El Cajon Administrative Building. Since then, the County has made use of various lease arrangements with certain financing entities such as joint powers authorities, the San Diego County Capital Asset Leasing Corporation, or similar nonprofit corporations. Under these arrangements the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds or certificates of participation and then leases the asset or assets to the County.

**Taxable Pension Obligation Bonds (POBs)** have been issued on three occasions by the County to reduce the unfunded actuarial accrued liability (UAAL) of the San Diego County Employees Retirement Association (SDCERA) on a lump sum basis rather than make actuarially determined amortized payments over a specified period of years. The size of the UAAL is determined annually by an actuary and can increase or decrease depending on changes in actuarial assumptions, earnings of the assets of the fund, and retiree benefits. POBs totaling \$430.4 million were first issued by the County in February 1994.

The County then issued \$737 million of Taxable Pension Obligation Bonds on October 3, 2002 of which \$550 million went to the San Diego County Employees Retirement System (SDCERA) to reduce the UAAL. The remaining proceeds were used to escrow a portion of the County's 1994 Pension Obligation Bonds in order to take advantage of the lower interest rates, and to pay for related costs of issuance.

In June of 2004, the County of San Diego issued a third series of taxable POBs in the amount of \$454.1 million of which \$450.0 million went to the SDCERA thus reducing the unfunded accrued actuarial liability. The remaining proceeds were used to pay for related cost of issuance.

On September 27, 2004, the County of San Diego (the "County") deposited with BNY Western Trust Company (the "Trustee") approximately \$63.5 million (the

"Deposit"), of which \$45.9 million was General Fund money. Such funds were invested in an Investment Agreement (the "Investment Agreement") entered into by the Trustee and an obligor. The obligations of the obligor under the Investment Agreement are guaranteed by American International Group, Inc. ("AIG"), which has been assigned long-term credit rating from Moody's Investors Service and Standard & Poor's Rating Services of "Aaa" and "AAA," respectively. Under the Investment Agreement, the obligor will make payments to the Trustee in July of each of 2005, 2006, and 2007 in amounts which will be sufficient to meet the County's remaining annual payment obligations to a counterparty under a Debt Service Forward Sale Agreement (the "Forward Agreement") currently in effect for the County's Taxable Pension Obligation Bonds, Series A (the "1994 POB Bonds") until the final maturity of the 1994 POB Bonds on August 15, 2007. In exchange for the County's annual payments, the Forward Agreement requires the counterparty thereto to deposit securities (which must be non-callable obligations issued or guaranteed by the United States of America or certain instrumentalities or agencies of the United States of America) into the Bond Fund relating to the 1994 POB Bonds the cash flows of which are sufficient to pay each scheduled payment of principal and interest on the 1994 POB Bonds during the applicable fiscal year.

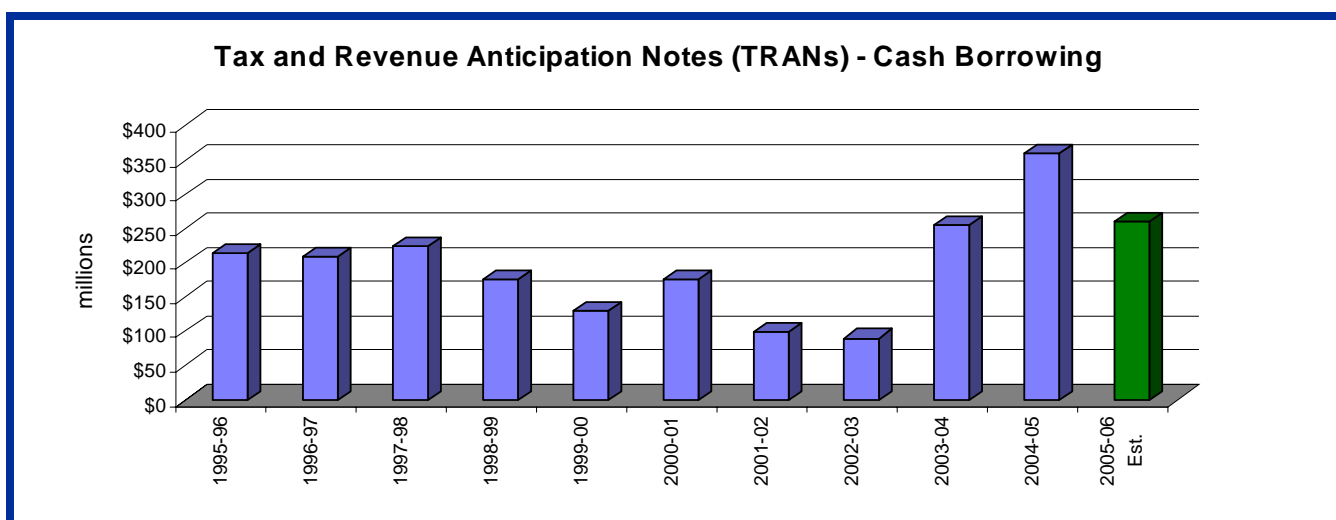
The 1994 POB Bonds will remain outstanding until their regularly scheduled maturities; if the obligor under the Investment Agreement, and AIG under its related guaranty, or the counterparty to the Forward Agreement defaults in its respective obligations for any reason, the County remains obligated to make any affected payment of principal of and interest on the 1994 POB Bonds.

**Redevelopment Agency Revenue Bonds** were issued on September 12, 1995 by the Redevelopment Agency of the County of San Diego in the amount of \$5.1 million and are obligations of the Agency. The proceeds were used by the Agency to finance the construction of public improvements at Gillespie Field.



## Long- and Short-Term Financial Obligations

### Short-Term Obligations



During the course of the fiscal year, the County experiences temporary shortfalls in cash flow due to the timing of expenditure and receipt of revenue. To meet these cash flow needs, the County issues Tax and Revenue Anticipation Notes (TRANs). In addition, the County borrows cash to support the Teeter Plan.

**Tax and Revenue Anticipation Notes (TRANs)** borrowing for Fiscal Year 2005-06 is projected to be issued in the principal amount of \$260 million. The chart above shows TRANs borrowing for the past 10 years and the estimated amount for Fiscal Year 2005-06.

**Short-Term Teeter Obligation** notes are secured by future collections of delinquent property taxes and are used to provide various taxing agencies the amount of their property taxes without regard to such delinquencies. For Fiscal Year 2005-06, based on outstanding balances for current Teeter Obligation notes and projected tax revenues, approximately \$72.0 million will be borrowed for this purpose.

# Credit Rating and Long-Term Obligation Policy

## Credit Rating and Long-Term Obligation Policy

The County of San Diego's credit ratings are:

Credit Ratings			
	Moody's	Standard & Poor's	Fitch IBCA, Duff & Phelps
Certificates of Participation	A1	AA-	AA-
Pension Obligation Bonds	Aa3	AA-	AA-
Issuer Credit Rating	Aa2	AA	
Pool		AAAf/S1	

### Credit Rating

The last long-term review by the three rating agencies was during the issuance of the County's \$112.4 million of Certificates of Participation for the Edgemoor Project and 1996 Regional Communication System Refunding. All three rating agencies affirmed the County's ratings as listed above. In Moody's January 2005 Rating Outlook section of the credit write-up, Moody's stated that the County's financial position has remained sound largely as a result of strong management aided by a healthy local economy.

The last short-term analysis by the rating agencies was during the May and June 2004 short-term borrowing program whereby the County received the ratings of MIG-1, SP1+ and F1+ from Moody's, Standard & Poor's, and Fitch Ratings respectively. These are the highest short-term ratings possible.

The San Diego County Investment Pool continues to hold an AAAf/S1 rating from Standard & Poor's. The rating reflects the extremely strong protection the pool's portfolio investments provide against losses from credit defaults. The pool invests primarily in 'AAA' or 'A-1/P-1/ F-1' rated securities. The 'S1' volatility rating signifies that the pool possesses low sensitivity to changing market conditions given its low-risk profile and conservative investment policies.

### Long-Term Obligation Policy

The County incurs short and long-term obligations to benefit the residents of the County of San Diego. Therefore, the management of the County's obligations are an important component of the County's financial management. In order for decision makers such as the Chief Administrative Officer, our governing board and County departments to make decisions, parameters need to be set to avoid inconsistencies in goals, existing policy and to avoid case by case situations. The County Board of Supervisors adopted Board Policy B-65, Long-Term Obligations Management on August 11, 1998. This policy, along with the rating agencies' analysis, has been the foundation for the issuance and management of the County's long-term obligations. The Policy centralizes the issuance, information, and post-closure requirements for long-term obligations. Key points included in the policy are:

- The amount of variable rate exposure,
- The establishment and members of a Debt Advisory Committee to review and assess the feasibility of long-term obligations for the County of San Diego (including ability to repay the obligation) or conduit financings and make recommendations to the board of supervisors,
- Compliance with all on-going disclosure requirements, and



## Credit Rating and Long-Term Obligation Policy

- Monitoring of earnings on proceeds and rebate excess earnings as required to the US Treasury.

The County is also a conduit issuer on various financings, whereby the County issues tax-exempt long-term indebtedness on behalf of a qualifying entity that is

responsible for all costs in connection with the issuance and repayment of the financing. Debt issued under the conduit program is not considered to be a debt of the County. The following chart reflects the County's outstanding conduit issuances:

### Outstanding Conduit Issuances

	Final Maturity Dates	Original Principal Amount	Principal Amount Outstanding
<b>Conduits</b>			
1998 Sharp	2028	\$ 112,020	\$ 104,575
1998 San Diego Natural History Museum	2028	15,000	13,800
1999 Burnham Institute	2029	51,500	49,100
2000 San Diego Museum of Art	2030	6,000	6,000
2000 Salk Institute	2031	15,000	14,305
2001 University of San Diego	2041	36,870	33,230
2002 San Diego Imperial Counties	2027	10,750	10,250
2003 Chabad	2023	11,700	11,700
2003 San Diego Jewish Academy	2023	13,325	13,325
2004 Museum of Contemporary Art	2034	13,000	13,000
Total Conduits		\$ 285,165	\$ 269,285
<b>Housing</b>			
1999 Laurel Village West	2014	\$ 1,670	\$ 1,134
2001 Village West	2031	4,438	4,218
2002 Spring Valley	2020	3,250	3,147
Total Housing		\$ 9,358	\$ 8,499



### Authority to Finance and Bond Ratios

The following table lists the legal statutes authorizing the County of San Diego to issue short- and long-term obligations and, if applicable, the legal authority on maximum bonded indebtedness. All short- and long-term obligations must be issued to conform with State and local laws and regulations. The basic constitutional authority for State and local entities to issue short- and long-term obligations is in the Tenth Amendment of the Constitution. To issue short- or long-term obligations within the state of California, a political subdivision must have either express or implied statutory authority.

#### Issuance Authority

ISSUER	LEGAL AUTHORITY
County of San Diego	General: Government Code Section 29900
	Maximum Indebtedness: Government Code Section 29909
	Short Term: TRANS Government Code Section 53850, Commercial Paper, Teeter Revenue & Tax Code Section 4701
	Pension Obligation Bonds: Government Code Section 53580
Joint Powers Authority	Government Code Section 6500
Redevelopment Agency	Health and Safety Code Section 33000
Housing Authority	Health and Safety Code Section 34200
	Multifamily Bonds Health and Safety Code Section 52075
Mello-Roos Community Facilities District	Government Code Section 53311
Nonprofit Corporation	Corporations Code Section 5110
Assessment Bonds	Street & Highway Code Section 5005

State constitutional limitations prohibit cities, counties, and school districts from entering into indebtedness or liability exceeding in any year the income and revenue provided for such year unless the local agency first obtains two-thirds voter approval for the obligation.

However, there are three major exceptions to the debt limit which have been recognized by the California courts. The three exceptions are the *Offner-Dean lease exception*, the *special fund doctrine*, and the *obligation imposed by law*.

The *Offner-Dean lease exception* provides that a long-term lease obligation entered into by an agency will not be considered an indebtedness or liability under the debt limit if the lease meets certain criteria.

The *special fund doctrine* is an exception to the debt limit which permits long-term indebtedness or liabilities to be incurred without an election if the indebtedness or liability is payable from a special fund and not from the entity's general revenue. An example of a special fund would be one



## Credit Rating and Long-Term Obligation Policy

consisting of enterprise revenue which is used to finance an activity related to the source of the revenues, such as the activity of the enterprise.

Courts have applied the *obligation imposed by law exception* to indebtedness used to finance an obligation imposed on the local agency by law. The theory of this exception is that the obligation is involuntary, thereby making the act of putting the question to the voters meaningless.

The County has no outstanding general obligation bonds. As noted previously, the long-term obligations are either pension obligation bonds that are permitted under the “obligation imposed by law” exception or are lease purchase obligations as permitted under the *Offner-Dean lease exception*.

### Bond Ratios

Useful bond ratios to management, general public, and investors are as follows:

Bond Ratios			
	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05
Net Bonded Debt (in millions)*	\$ 1,191.8	\$ 1,623.8	\$ 1,663.7
Net Bonded Debt per Capita	\$ 402	\$ 538	\$ 544
Ratio of Net Bonded Debt to Assessed Value	0.51 percent	0.64 percent	0.59 percent

\*Net Bonded Debt excludes Redevelopment Agency Revenue Bonds and is a net of debt service reserves (estimated at \$22.2 million for Fiscal Year 2005-06).

Note: If the County were to issue general obligation bonds, the debt limit pursuant to Government Code Section 29909 would be 5% of the taxable property of the County. As of Fiscal Year 2004-05, the gross assessed value in the County was \$280.8 billion. The debt limit would, therefore, be \$14.0 billion.

# Financial Planning Calendar

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## Ongoing

**Organizational Goals**—The Board of Supervisors provides ongoing policy direction to the Chief Administrative Officer (CAO). The CAO, in conjunction with his Executive Team, reviews the County’s mission, strengths, and risks to develop and refine the Strategic Plan which defines the County’s long-term goals.

## November–February

**Five-Year Goals**—The CAO, General Managers, and Chief Financial Officer (CFO) develop the Five-Year Financial Forecast of revenues and expenditures, and a preliminary analysis of key factors impacting this analysis. In coordination with the CFO, the Agency/Groups and their respective departments develop preliminary short- and medium-term operational objectives that contribute to meeting the Strategic Plan goals, and allocate the necessary resources to accomplish the operational objectives.

## March–April

**Preparation of Proposed Operational Plan**—Agency/Groups and Departments plan specific objectives as part of the preparation of the Operational Plan. Objectives are clear and include measurable targets for accomplishing specific goals. The Operational Plan includes discussion of the proposed resources necessary to meet those goals, as well as a report of the accomplishments of the prior year.

## May

**Submission of the Proposed Operational Plan**—The CAO submits a two fiscal year Proposed Operational Plan to the Board. The Board accepts the CAO’s Proposed Operational Plan for review, publishes required notices, and schedules public hearings.

## June

**Public Review And Hearings**—The Board conducts public hearings on the Operational Plan for a maximum of ten days. This process commences with Community Enhancement Program presentations.

All requests for increases to the Proposed Operational Plan must be submitted to the Clerk of the Board in writing by the close of public hearings. Normally, the CAO submits a Proposed Change Letter recommending modifications to the Proposed Operational Plan. Additionally, Board members may submit Proposed Change Letters.

**Deliberations**—After the conclusion of public hearings, the Board discusses with the CAO and other County officials as necessary the Proposed Operational Plan, requested amendments, and public testimony. Based on these discussions, the Board may modify the CAO’s Proposed Operational Plan. The Board’s deliberations are scheduled for one week and are generally completed by the end of June.

## August

**Adoption of Budget**—Subsequent to completing deliberations, all Board approved changes are incorporated into the Operational Plan and are included in a Line-Item Budget format which contains the first year of the Plan for the Board’s adoption. In addition to adopting the Line-Item Budget, by accepting the Operational Plan the Board approves in concept the second year of the Plan. The Board may also approve a supplemental plan resolution, reflecting final estimates of fund balance, property taxes, and the setting of appropriation limits.

# Summary Of Related Laws, Policies, and Procedures

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## California Government Code

Government Code Sections §29000 through §30200 provide the statutory requirements pertaining to the form and content of the State Controller's prescribed Line-Item Budget.

### Charter

Section 703.4—The Chief Administrative Officer (CAO) is responsible for all Agency/Groups and their departments and reports to the Board of Supervisors on whether specific expenditures are necessary.

### Administrative Code

Sections 115–117—The CAO is responsible for budget estimates and submits recommendations to the Board of Supervisors.

### Board Of Supervisors Policies

A-91 Mid-Year Budget Changes—restricts mid-year appropriations to responses to mandated or emergency issues only.

B-29 Fees, Grants, Revenue Contracts—provides a methodology and procedure to encourage County departments to recover full cost for services whenever possible.

B-51 Grants, Awards & Revenue Contracts—requires County departments to certify in writing that a proposed activity or project funded primarily by the State or federal government would be worthy of expending County funds if that outside funding were not available.

M-26 Legislative Policy—Long-Term Financing of County Government—calls on the Legislature to redress inequitable State funding formulas.

## Administrative Manual

0030-13 Budget Program/Project Follow-Up—Sunset dates will be placed on programs intended to have limited duration, and related staff and other resources will not be shifted to other activities without the Board of Supervisors' approval.

0030-14 Use Of One-Time Revenues—One-time revenue will be appropriated only for one-time expenditures such as capital projects or equipment, not to ongoing programs.

0030-17 General Fund Reserve—This reserve would provide a sound fiscal base for the County's budget to meet the emergency requirements of extraordinary events.

0030-18 Transfer Of Excess Cash Balances To General Fund—This provides for excess bond proceeds from Joint Powers Agency activities to be transferred to County use.

0030-19 Revenue Match Limitations—Revenue matches will be limited to the mandated level unless clear justification is provided which results in a waiver of this policy by the Board of Supervisors.

### Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Trust and Agency funds are custodial in nature and do not involve measurement of results of operations.

All proprietary funds, the pension trust fund and the investment trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the





balance sheet. Fund equity for the proprietary funds (i.e., total net assets) is segregated into net assets invested in capital assets, net of related debt, and restricted net assets on the County's Comprehensive Annual Financial Report. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Financial Accounting Standards Board Statements issued after November 30, 1989 are not applied in reporting proprietary fund operations.

Governmental fund types are accounted for using the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers this to be one year. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues that are accrued include property taxes, sales tax, interest, and State and federal grants and subventions.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: principal and interest on long-term debt is recognized when due; prepaid expenses are reported as current period expenditures, rather than allocated; and accumulated unpaid vacation, sick leave, and other employee benefits are reported in the period due and payable rather than in the period earned by employees.

Proprietary fund types, the pension trust fund, the investment trust fund, and agency fund are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. There are no unbilled utility service receivables for the proprietary fund types.

### General Budget Policies

**Governmental Funds-** An operating budget is adopted each fiscal year for the governmental funds. The annual resolution adopts the budget at the summary level of expenditures within departments. The County's financial statement, the Comprehensive Annual Financial Report (CAFR), is prepared using generally accepted accounting principles (GAAP). Budgets for the governmental funds are adopted and evaluated on a basis of accounting that is different from GAAP.

The major areas of differences are:

- The budgets for some County agencies ("blended component units") that are presented in the CAFR, such as the In-Home Supportive Services Public Authority, are not presented in this document. The Board reviews them separately.
- Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are reported in the CAFR as budgeted expenditures in the year the commitment to purchase is incurred. In this document, however, year-end encumbrances at June 30, 2004 are not treated as expenditures of Fiscal Year 2003-04. For GAAP purposes in the fund financial statements of the CAFR, encumbrances outstanding at fiscal year-end are reported as reservations of fund balances and do not constitute expenditures and liabilities, because the appropriations for these commitments will be carried forward and the commitments honored in the subsequent fiscal year.
- Long-term capital lease obligations are not budgeted as an expenditure and source of funds in the year the asset is acquired. Under a GAAP basis, in the fund financial statements such obligations are included as an expenditure and source of funds in the year the asset is acquired.



## Summary Of Related Laws, Policies, and Procedures

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- Loans and deposits to other agencies, if any, and their subsequent repayments are budgeted as expenditures and revenues, respectively. Under a GAAP basis in the fund financial statements, these items are not recognized as expenditures and revenues.
- On a budgetary basis, unrealized gains and losses on the fair value of investments are not recognized. For GAAP purposes, such gains or losses are recognized.

**Proprietary funds-** The Board of Supervisors approves an annual spending plan for proprietary funds. Although the adopted expense estimates are not appropriations, their budgetary controls are the same as those of the governmental funds. Because these funds collect fees and revenues generally to cover the cost of the goods and services they provide, their accounting and budgeting bases are closer to commercial models. Budgeting, like accounting, is done on the accrual basis and generally according to GAAP.

Some exceptions are:

- Certain funds are budgeted as governmental funds but are reported as proprietary funds; the most significant difference is that depreciation is not budgeted. Depreciation is not included in the budgets for the Sanitation and Sewer Maintenance Special Districts.
- Adjustments to inventory valuations are not budgeted.

**All funds-** Changes in reservation and designation of fund balance are budgeted as appropriations (expenditures) or revenues; for GAAP purposes, they are neither.

Appropriations may be adjusted during the year with the approval of the Board of Supervisors; additionally, Group and department managers are authorized to approve certain transfers of appropriations within a department. Such adjustments are reflected in the final budgetary data as presented in the CAFR. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.

# County of San Diego Budget Documents

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## Operational Plan Documents

Several documents are produced to aid in budget development and deliberations:

**CAO Proposed Operational Plan-** is a comprehensive overview of the Chief Administrative Officer's (CAO) proposed plan for the County's operations for the next two fiscal years, including:

- Summary tables showing the balance of revenues and expenditures for all County funds.
- A listing of planned capital projects.
- A summary of the County's short- and long-term debt.
- A detailed section by Agency/Group and Department/program describing their missions, prior year accomplishments, operating objectives, revenue amounts and sources, expenditures by category, staffing by program, and performance measures.
- Other supporting material including a glossary.

**Change Letters-**are proposed changes to the CAO Proposed Operational Plan submitted by the CAO and members of the Board of Supervisors. The CAO Change Letter updates the CAO Proposed Operational Plan with information that becomes available after the document is presented to the Board of Supervisors. Such modifications may be due to Board actions that occurred subsequent to the submission of the CAO Proposed Operational Plan or recent changes in State or federal funding. The CAO Change Letter typically contains:

- A schedule of revisions.
- A summary of Agency/Group adjustments.
- Highlights of significant changes to the Proposed Operational Plan.

**Referrals To Budget-**are status updates on items on which the Board of Supervisors has deferred action during the current fiscal year until the budget process. The Clerk of the Board tracks referrals to budget. As Budget Deliberations

approach, the status of each referral is updated and included in a compilation of all the referrals made throughout the year. This document is submitted to the Board for its review and for discussion with affected departments during Budget Deliberations.

**Citizen Advisory Board Statements-**are comments of citizen committees on the CAO Proposed Operational Plan.

**Referrals From Budget-**are requests made by the Board of Supervisors during Budget Deliberations for additional information to assist them in making decisions during the fiscal year. The Agency/Groups are responsible for providing requested information to the Board. The status of each referral from budget is tracked by the Clerk of the Board to ensure that the information is provided.

## Post Adoption Documents

**Operational Plan-** is a comprehensive overview of the Board of Supervisors' adopted and approved plan for the County's operations for the next two fiscal years. The Operational Plan is an update of the CAO Proposed Operational Plan reflecting revisions made by the Board during Budget Deliberations. Unlike the CAO Proposed Operational Plan, however, the Adopted Operational Plan displays adjusted actual expenditures and revenue for the immediate prior fiscal year.

**Note on Adjusted Actuals--** Expenditures may not legally exceed budgeted appropriations at the expenditure object level within each department. In some instances in the Adopted Operational Plan, the adjusted actuals for the most recently completed fiscal year will exceed the adopted budget for that year. This results from the inclusion of expenditures related to mid-year budget amendments or to encumbrances of prior year appropriations in the adjusted actual figures. The adopted budget does not include appropriations for these expenditures, but the appropriations are part of the "amended budget" and are thus considered "budgeted".



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**Budget Modifications-** State Law permits modifications to the first year of the Operational Plan during the year with approval by the Board of Supervisors. There are two options for accomplishing a mid-year budget adjustment:

- **Board Of Supervisors Weekly Regular Agenda Process-** Budget modifications are generally made due to unforeseen and program-specific changes. In compliance with Government Code §29130, increases in appropriations require a four-fifths vote by the Board after the first year of the Operational Plan is adopted.

Such changes could include requests for additional appropriations as a result of additional revenues for specific programs or a contract modification. Items placed on the agenda that have a fiscal or budgetary impact are reviewed and approved by the Chief Financial Officer and County Counsel. Contract modifications also require the approval of the Purchasing Agent.

- **Quarterly Status Reports-** The Chief Administrative Officer provides a quarterly budget status report to the Board of Supervisors that may also recommend appropriation adjustments and management reserve and/or Contingency Reserve usage to address unanticipated needs.